100th Congress
1st Session

COMMITTEE PRINT

WMCP: 100-9

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

REPORT

ON

THE COMMITTEE DELEGATION MISSION TO THE CARIBBEAN BASIN AND RECOMMENDATIONS TO IMPROVE THE EFFECTIVENESS OF THE CARIBBEAN BASIN INITIATIVE

MAY 6, 1987

U.S. GOVERNMENT PRINTING OFFICE
71-862
WASHINGTON : 1987

For sale by the Superintendent of Documents, U.S. Government Printing Office
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May 4, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
1102 Longworth House Office Building
Washington, D. C. 20515

Dear Mr. Chairman:

I am submitting to the Committee on Ways and Means the official report of the Subcommittee on Oversight on the Caribbean Basin Initiative. Included in this report are the results of the Subcommittee's January, 1987 fact-finding mission to five countries in the Caribbean Basin region, and recommendations to improve the effectiveness of the CBI. The Subcommittee on Oversight requests that the Full Committee on Ways and Means and the Subcommittee on Trade immediately review this report and act on the recommendations contained therein.

I look forward to meeting with you to discuss the report and recommendations, as well as the timing and legislative vehicle for moving forward to improve the CBI.

Sincerely,

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/bvw

CONTENTS

Page
I. Caribbean Basin Initiative (CBI) legislation and its impact ... 1
A. Trade benefits under the CBI ... 1
1. Product coverage ... 2
2. Products exempt from duty-free treatment ... 2
a. Textiles ... 2
b. Footwear, handbags, leather goods, and other miscellaneous products ... 3
c. Tuna ... 3
d. Petroleum products ... 3
B. Tax benefits under the CBI ... 3
1. Convention tax deduction ... 4
2. Foreign sales corporations ... 4
3. Section 936 of the Internal Revenue Code ... 4
C. Business outreach programs ... 5
D. Reports to the Congress on the impact of the CBI ... 5
1. Report of the U.S. International Trade Commission ... 5
2. Report of the Department of Labor ... 6
II. Overview of the delegation mission ... 7
A. Brief summary of the delegation mission ... 7
B. List of meetings held by the delegation ... 10
C. Countries visited ... 11
1. Jamaica ... 11
a. Economic and political developments since enactment of the CBI ... 11
b. Primary issues of concern and recommendations ... 12
Sugar quotas ... 12
Expanding product coverage under the CBI ... 13
Protectionism ... 13
Agricultural exports to the United States ... 14
Investment promotion and U.S. market access ... 14
Extension of the CBI legislation ... 14
2. Costa Rica ... 15
a. Economic and political developments since enactment of the CBI ... 15
b. Primary issues of concern and recommendations ... 15
Sugar quotas ... 15
Costa Rican cut flower case ... 16
Protectionism ... 16
Expanding product coverage under the CBI ... 17
Investment promotion and U.S. market access ... 17
c. Economic assistance ... 17
3. Barbados ... 18
a. Economic and political developments since enactment of the CBI ... 18
b. Primary issues of concern and recommendations ... 19
Sugar quotas ... 19
Product entry into the United States ... 19
Investment promotion and access to U.S. markets ... 20
Industries with U.S. Government procurement contracts ... 20
4. Eastern Caribbean States ... 20
a. Economic and political developments since enactment of the CBI ... 20
b. Primary issues of concern and recommendations ... 21
Sugar quotas ... 21

Page

        Expanding product coverage under the CBI 22
        Investment promotion and access to U.S. markets 22
        Agricultural exports to the United States 22
        Section 936 funds 22
        Extending the CBI legislation 22
        U.S. development assistance to the Eastern Caribbean States 23
  5. Dominican Republic 23
    a. Economic and political developments since enactment of the CBI 23
    b. Primary issues of concern and recommendations 24
        Sugar quotas 24
        Tax Information Exchange Agreement 25
        Agricultural exports to the United States 26
        Investment promotion and U.S. market access 26
        Extension of the CBI legislation 26
    c. Other issues 26
        U.S. development assistance to the Dominican Republic 26
        Development of the economy of neighboring Haiti 26
  6. Haiti 27
    a. Political and economic developments since enactment of the CBI 27
        Foreign assistance to Haiti 27
    b. Primary issues of concern and recommendations 28
        Development assistance 28
        Tax Information Exchange Agreement 28
        Expanding product coverage under the CBI 29
    c. Haiti's relationship with neighboring Dominican Republic 29
III. Caribbean Basin Initiative project site visits 30
  A. Jamaica 30
    1. Jamtex 30
    2. Slater Electronics 30
    3. Bob's Candies 31
    4. Tropicana 31
  B. Costa Rica 31
    1. Flores del Cerros 31
  C. Barbados 32
    1. Caribbean Services, Inc 32
    2. Transitor Barbados, Limited 33
    3. H&K Knitting Factory 33
    4. American Airlines 33
  D. Dominican Republic 33
    1. Hato Mayor Citrus Plant 33
    2. Tabacalera Garcia 34
  E. Haiti 34
    1. Alpha Electronics 34
    2. MacGregor Sporting Goods 35
IV. Subcommittee recommendations for improving the Caribbean Basin Initiative 36
  A. Passage of a joint resolution reaffirming congressional commitment to the success of the Caribbean Basin Initiative 36
  B. Recommendations within the jurisdiction of the Committee on Ways and Means 36
    1. Legislation 37
      a. Legislation should be enacted to extend the provisions of the Caribbean Basin Initiative beyond its current September 30, 1995, expiration date 37
      b. Legislation should be enacted to provide that articles assembled or processed from American-made parts or components enter the United States from CBI beneficiary countries totally duty-free 37
      c. Legislation should be enacted to provide for duty-free treatment of dutiable "exempt list" products exported from CBI beneficiary countries where the article is not produced or is in short supply in the United States 37

Page

- d. Legislation should be enacted to allow a specific volume of "exempt list" dutiable goods exported from CBI beneficiary countries to enter the United States market duty-free under a "tariff-rate quota" system 38
- e. Legislation should be enacted to provide a separate injury determination for CBI beneficiary countries in countervailing duty and antidumping unfair trade practice cases 39
- f. Legislation should be enacted to increase the duty-free allowance for U.S. citizens returning from a CBI beneficiary country or U.S. territories by $200 40
- g. Legislation should be enacted to provide certain countries, collectively referred to as the Eastern Caribbean States (Antigua and Barbuda, Aruba, British Virgin Islands, Dominica, Grenada, Montserrat, Netherlands-Antilles, St. Christopher-Nevis, St. Lucia, and St. Vincent and the Grenadines) with a special "rule-of-origin" 40

2. Subcommittee hearings 41
   - a. The Subcommittee on Trade should conduct hearings to reexamine the U.S. trade policy underlying the exemption of certain items from duty-free treatment under the CBI 41
   - b. The Subcommittee on Trade should determine whether the tax treatment afforded to certain U.S.-owned ethanol producers in the Caribbean region should also be afforded to state-owned facilities in Costa Rica and Jamaica 41
   - c. The Subcommittee on Trade should hold hearings to determine whether the U.S. Customs Service handling and tariff treatment of CBI exports is consistent at each port of entry 42
   - d. The Subcommittee on Oversight should hold hearings at the end of 1988 to provide review of loans made by the Government of Puerto Rico with qualified possession source investment income (QPSII) funds in qualified Caribbean Basin countries 42

C. Recommendations to administrative agencies 43
1. U.S. Trade Representative 43
   - a. The Office of the U.S. Trade Representative should examine the trade benefits provided to CBI beneficiary countries by trading partners other than the United States 43
   - b. The Office of the U.S. Trade Representative (in conjunction with the Department of State) should establish and develop permanent consultative groups to discuss ways to improve the CBI 43
2. The Department of Commerce should organize a trade show in various Caribbean Basin countries to bring U.S. textile producers to the region 43
3. Other U.S. Government agencies: The Office of the U.S. Trade Representative, the U.S. Customs Service, the Department of Agriculture, Food and Drug Administration, Environmental Protection Agency, and Overseas Private Investment Corporation should appoint a specific "contact" person responsible for CBI matters 43

D. Recommendations within the jurisdiction of the Committee on Foreign Affairs 44
1. Legislation and administrative issues 44
   - a. Steps should be taken to continue high-level U.S. AID support for balance of payments in CBI beneficiary countries .. 44
   - b. Steps should be taken to provide more assistance to the Dominican Republic through U.S. AID in the form of economic support funds 44
   - c. The current level of U.S. AID grants to Grenada and other Eastern Caribbean States should be continued for at least three more years 44
   - d. Steps should be taken to provide more assistance for infrastructure development, particularly in the Eastern Caribbean States, Haiti and in the Central American countries including Belize 44

Page
e. Steps should be taken to provide U.S. AID funding for industry and agricultural training programs in the Eastern Caribbean States 45
f. Steps should be taken to provide more reforestation aid to Haiti 45
g. Steps should be taken to provide additional U.S. AID marketing assistance to all CBI beneficiary countries 45
h. Steps should be taken to provide assistance to promote tourism and travel in the Caribbean Basin region 45
i. Steps should be taken to provide more short-term, medium-term, long-term financing, and political risk insurance to CBI investments 45
j. Steps should be taken to provide some U.S. AID funding for CBI investments 46
k. Steps should be taken to review the availability of Government procurement contracts to businesses in CBI countries 46
E. Recommendation within the jurisdiction of the Committee on Agriculture: The Committee on Agriculture should conduct a hearing to provide an overall review of the U.S. sugar program 46
F. Separate views 47
1. Separate views of the Honorable Dick Schulze 47
2. Separate views of the Honorable William M. Thomas 47
V. Appendices 49

I. CARIBBEAN BASIN INITIATIVE (CBI) LEGISLATION AND ITS IMPACT

The Caribbean Basin Economic Recovery Act was enacted into law on August 5, 1983 and became effective January 1, 1984. The act is commonly referred to as the Caribbean Basin Initiative (CBI). As provided under the law, the President has designated 22 Caribbean Basin countries and territories as eligible for unilateral duty-free treatment on U.S. imports of eligible articles.

The Congress, by enacting the CBI, sought to strengthen CBI economies by providing trade benefits in the region. The Congress at that time also recognized the impact of the decline in traditional industries in the Caribbean region and sought to offset that decline through incentives to diversify production away from traditional export commodities. Thus, the CBI offered benefits to the Caribbean Basin, previously unavailable under the U.S. laws.

Benefits were offered in two areas: trade and taxes. First, the CBI created a one-way duty-free trade system that expanded the coverage of products entering the United States duty-free from the CBI countries for a 12-year period. Product coverage was broader than that available under the Generalized System of Preferences (GSP), which is another unilateral duty-free trade system available to developing countries. In offering trade concessions under the CBI, Congress took into account the growing concerns of those domestic industries faced with strong import competition, and exempted certain products from duty-free treatment. The legislation also created additional safeguard mechanisms for U.S. industries that may be injured by agricultural imports resulting from the CBI benefits.

Second, the legislation provided certain tax benefits to CBI countries. Initially, the CBI provided for a convention tax deduction that allows U.S. taxpayers to deduct expenses from business conventions held in a qualifying CBI country. In subseqent tax legislation, two additional benefits were provided to CBI countries. In the Deficit Reduction Act of 1984, the Congress allowed for the establishment of foreign sales corporations in CBI countries. The Tax Reform Act of 1986, under section 936, allows the Government of Puerto Rico to extend investment capital at concessionary rates to Caribbean Basin countries by use of its Qualified Possession Source Investment Income (QPSII) funds. Tax benefits are linked to the signing of a Tax Information Exchange Agreement (TIEA) by each Caribbean Basin country that wishes to take advantage of these tax benefits.

A. Trade Benefits Under the CBI

Under the CBI law, duty-free treatment is available to all products exported to the United States from CBI-designated countries with the exception of textiles and apparel, footwear, handbags, work gloves, leather flat goods and apparel, certain watches and watch parts, canned tuna fish, and petroleum products.

1. PRODUCT COVERAGE

The list of products eligible for duty-free import into the United States under CBI is broader than the duty-free treatment extended to imports under the Generalized System of Preferences (GSP). Prior to enactment of the CBI, approximately 80 percent of Caribbean Basin non-petroleum exports could enter the United States duty-free. Nonetheless, numerous potential Caribbean Basin exports remained ineligible for duty-free treatment.

The CBI legislation also provided a security of access not otherwise provided for under GSP. For example, under CBI there is no annual review of product coverage, and products exempted under CBI will remain duty-free for the entire 12-year period. This is not the case under GSP. (The differences between duty-free treatment under CBI and GSP are more fully discussed in the report by the Congressional Research Service.) See, Appendix A, "Caribbean Basin Initiative: General Background Information, and Activities in Barbados, Costa Rica, Dominican Republic, Haiti and Jamaica," a report prepared by the Congressional Research Service, Library of Congress, February 18, 1987 (hereinafter the "CRS Report"), p. 2–3.

2. PRODUCTS EXEMPT FROM DUTY-FREE TREATMENT

In expanding the duty-free treatment for most products entering the United States from the CBI countries, the Congress sought to exempt from the CBI duty-free treatment those products where the domestic industry was declining due to competition from imports. The categories of products excluded from duty-free treatment under the CBI were the subject of much congressional discussion and debate at the time of enactment of the legislation. The specific concerns which led to exclusion of certain product categories were expressed in the report of the Committee on Ways and Means accompanying the Caribbean Basin Economic Recovery Act of 1983 (H.R. 2769).

A. TEXTILES

The CBI does not provide duty-free treatment for textiles and apparel due to the existing Multifiber Arrangement (MFA), and international trade and textile agreement. The MFA was negotiated with the CBI countries as well as other U.S. trading partners on the imports of textiles. By maintaining an exemption from duty-free treatment for textiles, the CBI does not interfere with the integrity of the MFA. See, Appendix A, CRS Report, p. 10.

At the time of enactment of the CBI, the administration had stated its intention to consider allowing larger quantities of textiles from the CBI to enter the U.S. markets. If the administration were to allow additional access from any CBI country to the U.S. market, such a decision would be made after reviewing a country's current level of textile exports on a case-by-case basis. The administration has since demonstrated its commitment to provide the Caribbean Basin countries more favorable treatment for their textile and apparel exports produced from U.S. fabric by creating guaranteed access levels, often called the "Super 807". See, Appendix A, CRS Report, p. 10–11. Accordingly, the administration has negotiated bilateral agreements with a number of designated beneficiaries of the CBI and has provided "guaranteed access levels" for entry into the U.S. market of certain garments imported from those countries that have agreements. Guaranteed access levels are restricted to garments made from fabric—100 percent cut and formed in the United States. The "Super 807" does not interfere with U.S. commitments uner the MFA.

B. FOOTWEAR, HANDBAGS, AND OTHER MISCELLANEOUS PRODUCTS

Other articles excluded from duty-free treatment under the CBI include items such as footwear, handbags, luggage, leather flat goods, certain watches and watch parts. These products had been similarly excluded from GSP duty-free treatment prior to and at the time of enactment of the CBI. Consequently, these products have never entered the U.S. market duty-free.

In enacting the CBI legislation, the committee members expressed three major concerns regarding the need to maintain the duties on these products. First, the steady and substantial growth rate of imports of such products under the CBI was likely to increase more rapidly in a short period of time with the incentive of unlimited duty-free access to U.S. markets. Second, U.S. industries, already impacted by the worldwide imports of these products, would not survive if faced with import competition from the Caribbean Basin countries. Finally, trade adjustment measures through domestic spending programs for the affected U.S. industries had been largely eliminated.

C. TUNA

Tuna is a major industry in two U.S. territories, Puerto Rico and American Samoa. The Congress provided an exemption from the CBI duty-free treatment in response to the need expressed by the tuna industry operating in the U.S. territories to protect jobs in the U.S. territories.

D. PETROLEUM PRODUCTS

The exclusion of petroleum products from duty-free treatment was necessary to avoid any interference with the U.S. oil import policy. The exclusion would also eliminate the potential problem of transshipment of worldwide oil imports through the CBI countries as a means of avoiding duties.

B. Tax Benefits Under the CBI

The CBI and subsequent tax legislation created tax benefits for the CBI countries. These tax benefits are only available to countries that have entered into a Tax Information Exchange Agreement (TIEA) with the United States.

1. CONVENTION TAX DEDUCTION

CBI eligible countries that enter into a TIEA with the United States are treated as part of the "North American Area" for purposes of deducting convention and business meeting expenses under section 274(h)(6) of the Internal Revenue Code of 1986. Treatment as part of the North American Area means that the rules that apply to deductibility of expenses for business conventions held in the United States would also apply to conventions held in a qualified Caribbean Basin country. Deductibility rules for the North American Area are less stringent than deductibility rules generally applicable to conventions held in foreign countries.

2. FOREIGN SALES CORPORATIONS

A foreign sales corporation (FSC) is a corporate entity that is established outside the U.S. customs territory and performs certain functions for a U.S. corporation relating to that U.S. corporation's export income. A portion of export income arising from the economic activities of a FSC is exempt from Federal income taxes. In addition, under section 245(c) of the Internal Revenue Code, a U.S. corporation can deduct dividends received from a foreign sales corporation from the earnings attributable to a foreign sales corporation.

To qualify as a FSC, the corporation must be created or organized under the laws of a foreign country or possession of the United States other than Puerto Rico. Countries that have provisions for a FSC in a tax treaty, and Caribbean Basin countries that have signed a TIEA, qualify as locations for foreign sales corporations.

3. SECTION 936 OF THE INTERNAL REVENUE CODE

The Tax Reform Act of 1986 included a provision, under section 936 of the Internal Revenue Code, that would allow Qualified Possession Source Investment Income (QPSII) to be used for investments in Caribbean Basin countries that have signed a TIEA. See Appendix A, CRS Report pp. 11-12. QPSII income is dervied from active trade and business within Puerto Rico. To receive tax benefits, the income must be currently held in financial institutions in Puerto Rico. Such financial institutions include banks, investment banks and the Government Development Bank of Puerto Rico (GDB). The QPSII funds will be provided to the banks in the form of a loan. Investors in a qualified Caribbean Basin country who borrow QPSII funds, must certify that the proceeds of a QPSII loan will be invested promptly in an active trade or business located in a qualified Caribbean Basin country.

The Government of Puerto Rico proposed, as part of the Tax Reform Act of 1986, to expand the benefits of section 936 to investments in the Caribbean Basin countries. The memorandum of agreement between the Government of the United States and the Government of Puerto Rico was presented to the Committee on Ways and Means on November 14, 1985. The agreement provides that the Government of Puerto Rico will provide $100 million annually of new funds for direct investment in qualified CBI countries. This document was relied upon by the House and Senate conferees on the final bill as the basis of the commitment by the Government of Puerto Rico to the CBI.

The conference report accompanying the Tax Reform Act of 1986 provides that the Government of Puerto Rico through the GDB will authorize distribution of QPSII funds for investment in the CBI countries. The Government of Puerto Rico has sole authority to release QPSII funds as authorized by the GDB. The conference report also authorizes the Department of the Treasury to issue regulations providing compliance measures.

The conferees expressed their expectation "that the Government of Puerto Rico will make a good faith effort to carry out the initiative as outlined in the memorandum of agreement." Objectives outlined in the memorandum of agreement include providing funds for investments and infrastructure development in the CBI countries.

C. Business Outreach Programs

In addition to the benefits provided through the CBI legislation, there are technical assistance and support programs extended by Federal agencies within their normal programs and budgets. Examples of these are the business outreach programs of the Department of Commerce, the Department of Agriculture, the Agency for International Development, and the Overseas Private Investment Corporation. These programs: (*a*) inform potential traders and investors about the opportunities offered by the CBI; (*b*) match CBI businesses with U.S. counterparts; and (*c*) assist CBI businesses to enter the U.S. market by helping them understand U.S. regulations and practices.

D. Reports to Congress on the Impact of the CBI

1. REPORT OF THE U.S. INTERNATIONAL TRADE COMMISSION

The CBI mandates that the U.S. International Trade Commission (ITC) report to the Congress after the first 2 years and thereafter, on an annual basis, its findings on the impact of the CBI on U.S. industries and consumers. See, Appendix B, "Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, First Report 1984–85," U.S. International Trade Commission, September 1986 (hereinafter "ITC Report"). The first study released in September 1986 reported the ITC's findings on the impact of the CBI after its first 2 years of operation.

The report found that the impact of the CBI has been minimal for two reasons. First, U.S. trade with the CBI beneficiary countries is low in value. For example, the CBI countries' share of worldwide imports entering the United States amounted to 3.7 percent in 1981 and has declined to 1.9 percent in 1985. Second, only a small portion of the trade from the CBI countries benefits from CBI duty-free status. Investors indicated in a survey conducted by the ITC that their investments were not prompted by the duty-free treatment of their product entering the U.S. market. The need to diversify agricultural production away from traditional crops and the low labor costs were the two factors most often reported by investors as the primary motivation for their investments. Ethanol is the single investment identified as being motivated by the duty-free status under the CBI. For example, until the recent change in law under the Tax Reform Act of 1986, fuel-grade ethanol dehydrated in the CBI countries entered duty-free as compared to fuel-grade ethanol imported from non-CBI countries on which a 3 percent ad valorem duty plus 60-cents-a gallon tax was imposed.

The ITC reported on all investment and trade activities in the CBI beneficiary countries. The survey included the increases and declines in imports of products exempted from the CBI duty-free status. The results indicate that even in import-sensitive industries, such imports to the United States from the Caribbean Basin countries are negligible as compared to imports from the Far East. For example, textiles and apparel for the entire CBI region in 1985 amounted to $649 million as compared to approximately $3.3 billion from Hong Kong, $2.4 billion from Taiwan and $2 billion from Korea (See, Appendix B, ITC Report, p. B–6). Figures on imports that are exempt from duty-free treatment under CBI, such as footwear, handbags, gloves, luggage, and leather flat goods show similar results. (See Appendix B, ITC Report, p. B–9.)

2. REPORT OF THE DEPARTMENT OF LABOR

The CBI mandates that the Department of Labor annually report to the Congress its findings on the impact of the CBI on employment in domestic industries. See, Appendix C, "Trade and Employment Effects of the Caribbean Basin Economic Recovery Act," Department of Labor, August 1986 (hereinafter "Department of Labor Report"). The Department of Labor submitted to the Congress in August 1986, its second annual report on the CBI. The report determined that, after 2 years of operation, the CBI has led to increases in certain imports, but the imports from the CBI beneficiary countries do not appear to have had an adverse impact on, or have constituted a threat to, domestic employment. The report also noted that a definitive evaluation of the impact on domestic employment cannot be made at this time since trade flows are small and the program is still in its early stages. See, Appendix C, "Department of Labor Report," Executive Summary.

The report also addressed the question of import injury. The report explained that even where domestic employment could be harmed by CBI imports, safeguard mechanisms were in place to protect U.S. producers against injury.

II. OVERVIEW OF THE DELEGATION MISSION

MEMBERS OF THE DELEGATION

Hon. J.J. Pickle, Chairman
Hon. Charles B. Rangel
Hon. Ronnie Flippo
Hon. William M. Thomas
Hon. Guy Vander Jagt
Hon. Doug Bereuter

STAFF

Beth Kuntz Vance, Vanessa J. Clark, Michael A. Superata, and George Weise

EXECUTIVE BRANCH

Ambassador Clayton Yeutter, U.S. Trade Representative
Elliott K. Abrams, Assistant Secretary of State for Latin American Affairs, Department of State
Jon Rosenbaum, Assistant U.S. Trade Representative, Office of the U.S. Trade Representative

A. Brief Summary of the Delegation Mission

A congressional delegation from the Committee on Ways and Means visited five countries in the Caribbean and Central America region between January 10 and 21, 1987. The congressional mission was made in followup to Subcommittee on Oversight, Committee on Ways and Means, hearings in February 1986 to review the impact and effectiveness of the Caribbean Basin Initiative in its first 3 years of operation.

The mission was undertaken at the request of the Honorable Dan Rostenkowski, chairman of the Committee on Ways and Means, and at the request of the Honorable Sam Gibbons, chairman of the Subcommittee on Trade, Committee on Ways and Means. Chairman Gibbons commented that the initial review by the Subcommittee on Oversight of the Caribbean Basin Initiative (CBI) would be enhanced by on-site visits to CBI projects and meetings in the Caribbean and Central America. Chairman Gibbons further noted that such a Subcommittee on Oversight effort could better determine whether the CBI has played a positive role in fostering economic development and encouraging political stability in the region. See, Appendix D, Committee Correspondence.

The objective of the delegation mission was to examine the progress made by the CBI countries toward reaching their economic development goals and to determine the role of CBI in accomplishing such objectives. The delegation visited five countries—Jamaica, Costa Rica, Barbados, Dominican Republic, and Haiti. These countries' political and economic systems were representative of the broad spectrum of countries in the Caribbean Basin. In addition, the delegation conducted a forum where the political and business leaders of the East Caribbean States presented views distinguishing their small island economies from the economies of the larger and more developed Caribbean and Central American countries. The delegation also received a briefing at the U.S. Naval Base at Guantanamo Bay concerning Caribbean shipping and trading routes, and security concerns in the Caribbean Basin region.

During the visit, the delegation met with the heads-of-state of each of the five countries and their respective ministers of government. The distinguished heads-of-state who met with the congressional delegation are: Prime Minister Edward Seaga of Jamaica, President Oscar Arias of Costa Rica, President Joaquin Balaguer of the Dominican Republic, Prime Minister Errol Barrows of Barbados, and Lt. Gen. Henri Namphy of Haiti.

The members of the delegation from the Subcommittee on Oversight of the Committee on Ways and Means were the Honorable J.J. Pickle, chairman, the Honorable Charles B. Rangel, the Honorable Ronnie Flippo, and the Honorable William M. Thomas. These members of the delegation also participated in subcommittee hearings, held on February 25–27, 1986, to review the impact and effectiveness of the Caribbean Basin Initiative. The Honorable Guy Vander Jagt joined the delegation as a member of the Subcommittee on Trade of the Committee on Ways and Means. The Honorable Doug Bereuter joined the delegation as a member of the Committee on Foreign Affairs.

The visit to the region was structured to give the members an opportunity to see first-hand many of the problems and concerns expressed during the subcommittee's 1986 hearings. Both investors in the region who sought to take advantage of the CBI, and governments in the regions, admitted some disillusionment with CBI after 2 years of operation. In addition, the members sought to better understand the advantages the CBI provided the region, how the CBI fit into the overall economic situation of each country visited, and why the CBI is not working, to the extent there are problems. The delegation approached its fact finding mission with a view toward improving the CBI.

The administration's commitment to the Caribbean Basin Initiative and its objectives was demonstrated by the administration's representation of the congressional delegation. The U.S. Trade Representative, Ambassador Clayton Yeutter, accompanied the delegation to Jamaica, Costa Rica, and Barbados. Assistant Secretary of State for Latin America, Elliot Abrams, joined the delegation in the Dominican Republic and Haiti. The participation of these administration officials in the delegation's meetings provided a valuable contribution to the discussions. Both administration officials emphasized the U.S. Government's commitment to the region and the importance of the Caribbean Basin Initiative as a bipartisan effort. The participation of Ambassador Yeutter and Assistant Secretary Abrams were particularly helpful during our discussions with government officials and business people in the region who sought answers to questions concerning the direction of U.S. trade policy and national security interests under the current administration.

The delegation met with private sector investors in each country, who expressed their views on how the CBI is working. In addition, visits were made to various industrial sites where investors had developed new industries that benefited from the CBI legislation. The delegation also toured industrial sites of several businesses that derived no benefits under the CBI legislation but had, nonetheless, set up operations in the Caribbean Basin region.

In each country, the delegation participated in formal press conferences or meetings with the press during the 10-day mission. Remarks of Chairman Pickle and the delegation, and the replies of each of the distinguished heads-of-state, concerning the purpose of the visit by the congressional delegation received full press coverage. The views of the public and private sector participants in each country were covered by the press, as well.

The American Embassy team in each country coordinated meetings with government officials, other political leaders, and the business community. The Ambassadors and Embassy officials also accompanied the delegation in meetings, press events and on the CBI project site visits. The special efforts made by each embassy team to prepare the delegation for its visit demonstrated their commitment to the CBI and the stated goals of the congressional mission. The mutual respect and good rapport that the American Embassy team enjoys with the political and business leaders in the region reflect their achievements of improving our political and economic ties with the Caribbean Basin countries. The delegation greatly appreciates the cooperation of each ambassador and his staff. Each embassy played a critically important role in the success of the mission but, more importantly, in the overall development of good relations between the United States and the neighboring Caribbean Basin countries.

The governments of the CBI countries enthusiastically welcomed the congressional delegation's visit to the region and the effort to review the CBI. Some of the political and business leaders in the region expressed concern that the CBI had not lived up to its originally anticipated promise of dramatically increasing production and export activity in the Caribbean Basin region. Leaders in the region hoped that the discussions and meetings conducted during the visit would provide the delegation with a more realistic view of the needs of the governments and private investors in the region. They also emphasized the political and economic importance of a successful CBI to the security of the United States and the Western Hemisphere. Discussions with key cabinet members in each country focused on the impact of duty-free exports to the United States under CBI and ways in which the CBI could be improved through either administrative action or legislative change. Discussions also focused on tax benefits available under CBI. In Costa Rica, the Dominican Republic and Haiti, where a TIEA had not been signed, discussions focused on what steps were currently being taken to secure a TIEA and problems the countries faced in such efforts.

Both political leaders and private sector individuals in the CBI countries expressed concerns surrounding the current economic crisis, which has resulted from the recent decline in the price and demand for the traditional commodities. Of particular concern were the impact of oil prices on the CBI beneficiary countries' economies and the decline in worldwide prices for traditional commodities such as bauxite and sugar. See, Appendix A, CRS Report, pp. 14–17. Further, they reported a concern that protectionism is a growing trend in the United States. As examples, they cited the recent change in the duty treatment of ethanol as enacted in the Tax Reform Act of 1986, and the U.S. International Trade Commission decision imposing countervailing duties on imports of Costa Rican cut flowers into the United States. See, Appendix A, CRS Report, pp. 12–14. Additionally, fear was expressed regarding trade legislation in the 100th Congress which could further reduce the benefits of the CBI.

The host governments consistently urged the United States to expand duty-free treatment to additional products and to extend such treatment beyond the 12-year period, which ends on December 31, 1995. Such changes would allow for more new investments in the region. They emphasized that strong economic systems in the Caribbean Basin region would further enhance democratic governments which are essential to U.S. security interests in the Western Hemisphere. In contrast, failure to develop the Caribbean and Central American economies would have an adverse impact on the development of democratic institutions in the region, and undesirable long-term consequences for the United States.

B. List of Meetings Held by the Delegation

GUANTANAMO BAY

1. Capt. John Condon, USN, Commander, Naval Base.
2. Capt. Michael Rose, USN, Chief of Staff, Naval Base.
3. Col. Gerald Jones, USMC, Commanding Officer, Marine Barracks Ground Defense Force.

JAMAICA

1. His Excellency Edward Seaga, Prime Minister of Jamaica, and his Cabinet.
2. The Honorable Michael Manley, President, People's National Party.
3. Representatives of the private sector leaders-representatives of Jamaican investment promotion groups and private business people.
4. Representatives of the tourism industry.
5. Kingston Free Trade Zone representatives.
6. The Honorable Michael Satirhos, U.S. Ambassador.

COSTA RICA

1. His Excellency Oscar Arias, President of Costa Rica, and his Cabinet.
2. Private sector leaders-representatives of the Costa Rican Coalition for Development Initiatives (CINDE), Chicago Chamber of Industry and Commerce, and private business people.
3. The Honorable James L. Tull, Chargé d'Affaires, U.S. Embassy.

BARBADOS

1. His Excellency Errol Barrows, Prime Minister of Barbados, and his Cabinet.
2. Private sector leaders-representatives of Barbados Chamber of Commerce, Barbados Industrial Development Corp., Central Bank of Barbados.
3. The Honorable Paul Russo, U.S. Ambassador.

EASTERN CARIBBEAN STATES

1. Caribbean Association of Industry and Commerce
2. Forum of representatives of business and governments including the following participants:
   - His Excellency Kennedy A. Simmonds, Prime Minister of St. Christopher-Nevis;
   - His Excellency Herbert Blaize, Prime Minister of Grenada;
   - His Excellency George Mallet, Deputy Prime Minister of St. Lucia;
   - Caribbean Association of Industry and Commerce;
   - Caribbean Congress and Labor;
   - Caribbean Development Bank;
   - Representatives from the private sector;
   - Council of Eastern Caribbean Manufacturers.

DOMINICAN REPUBLIC

1. His Excellency Joaquin Balaguer, President of the Dominican Republic, and his Cabinet.
2. American Chamber of Commerce of the Dominican Republic.
3. The Honorable Lowell C. Kilday, U.S. Ambassador.

HAITI

1. His Excellency Lt. Gen. Henri Namphy, President of Haiti.
2. Leslie Delatour, Minister of Finance, Government of Haiti, and other key cabinet members.
3. Private sector leaders-representatives of Prominex.
4. The Honorable Brunson McKinley, U.S. Ambassador.

C. Countries Visited

1. JAMAICA

A. ECONOMIC AND POLITICAL DEVELOPMENTS SINCE ENACTMENT OF THE CBI

At the time of the CBI's enactment in 1983, it was anticipated that Jamaica would be the "showcase" country among the CBI beneficiaries. However, when CBI was enacted, Jamaica faced numerous domestic problems that precluded the country from taking full advantage of its benefits.

In 1983, Jamaica had suffered from a drastic fall in the world market price of its principle export commodity, bauxite. Also, the decline in the world market price and exports of sugar from Jamaica had a dramatic negative impact on Jamaica's internal economy. Further, the International Monetary Fund (IMF) had insisted on structural changes in Jamaica so that Jamaica could meet the terms of an IMF standby-agreement and qualify for IMF financial assistance. See, Appendix A, CRS Report, pp. 18–20.

Riots in Kingston, Jamaica in 1983 cost Jamaica $50 million dollars in tourist trade revenues due to adverse publicity regarding its internal political situation. Tourism has since been revitalized in Jamaica, and is now the primary source of foreign exchange, and has become the greatest hope for economic development.

While in general the sugar industry in Jamaica has declined some, domestic production has been diverted into ethanol. There are two ethanol operations, Petrojam, Ltd., owned by the Government of Jamaica, and Tropicana, owned by private U.S. investors. The Jamaican Government has recently committed to developing full fermentation of sugar to be used as feedstock for ethanol production in its facilities at Burner's Lodge, a Government-owned sugar plantation that formerly produced sugar for export. In addition, the Jamaican Government entered into an agreement with Tropicana and sold Duckenfield Estate, another Government-owned sugar plantation, to Tropicana for their establishment of a full-fermentation facility. Ethanol produced from locally grown sugar will enter the United States duty-free under CBI.

B. PRIMARY ISSUES OF CONCERN AND RECOMMENDATIONS

Discussions with public officials and private sector leaders centered on several key issues: the impact of the reduction in sugar quotas; the current impact on Jamaica of textiles, footwear and other products exempted from duty-free treatment under the CBI; U.S. protectionism and fear of further legislative action; changing rules with respect to agricultural exports to the U.S. market; inability to penetrate U.S. markets; and, the prospect of extending the CBI beyond the 12-year period.

Sugar quotas

The reduction of sugar quotas for Jamaica by almost 46 percent was of primary concern to the Jamaican Government, since sugar is an important employment industry and foreign exchange earner. Jamaican officials suggested that the effects of drastic reductions in sugar quotas could extend beyond the loss of export earnings for Jamaica and its neighbors and further weaken the viability of the sugar industries in the region. In Jamaica alone, U.S. imports of sugar have decreased from $14.92 million in 1983 to $2.35 million in 1986.

In our discussion with the Jamaican Government officials as well as with the government officials in Costa Rica and Barbados, Ambassador Clayton Yeutter explained that the decline of the sugar industry is not a problem that is restricted to the Caribbean Basin countries. He noted that increased production of beet sugar by the EEC combined with the introduction of new sweetners such as high fructose corn syrup (HFCS) have provided alternatives to and decreased demand for imported sugar from the Caribbean Basin sugar producers.

Jamaican officials requested that the Congress review the U.S. sugar program and the breadth of product coverage under the sugar quota. In a speech before the business leaders and the delegation, Deputy Prime Minister Hugh Shearer noted that the quota has restricted imports of Milo, a chocolate-based beverage exported to the West Indian ethnic market in the United States. Products which include sugar, even if sugar content is low, are often subject to the sugar quota for the CBI countries.

Expanding product coverage under the CBI

Jamaican officials and business people strongly urged that the U.S. review the list of products exempted from CBI duty-free treatment as part of its review of the CBI. Jamaican officials identified textiles and footwear as two product categories to which CBI duty-free treatment should be applied. They noted that the light manufacturing and garment industries are the industries in which Jamaica can be the most efficient. Private investors whose operations are located in the Kingston Free Trade Zone expressed their concerns that any reduction in worldwide quota levels for textiles would adversely impact exports of garments to the U.S. market which are not made of U.S. fabric. These textile manufacturers urged that the United States hold existing textile quota levels for the Caribbean Basin countries should legislation be enacted to reduce worldwide textile quotas. These quota levels are currently being negotiated under the Multifiber Arrangement.

Protectionism

Both Jamaican public officials and private sector business leaders expressed their concern that the United States would enact trade legislation during the 100th Congress that would further reduce the benefits under the CBI. Government officials identified protectionist legislation in the 99th Congress as indications of the current direction of U.S. policy toward the CBI. Such examples include section 423 of the Tax Reform Act of 1986 which amended the 1983 CBI legislation by imposing restrictions on the duty-free treatment of ethanol imports from CBI countries. See, Appendix E, "Caribbean Basin Initiative: Legislative and Agency Actions Relating to the CBI," U.S. General Accounting Office, December 1986, pp. 5–6 (hereinafter the "GAO Report").

In addition to the amendment restricting ethanol imports, Jamaican Government officials cited language in the continuing budget resolution for the fiscal year 1987 appropriations, H.J. Res. 738, which bars the U.S. Travel and Tourism Administration of the Department of Commerce from funding activities, such as policy studies or technical assistance, that could benefit the tourism industry in CBI beneficiary countries. A similar policy restricts the International Trade Administration of the Department of Commerce and U.S. AID from engaging in or funding programs that convey the advantages of relocating U.S. businesses overseas. Additional language in the Continuing Resolution on fiscal year 1987 appropriations disallows the funding for the development of foreign agricultural exports which could compete with U.S. production. See, Appendix E, GAO Report, pp. 7–8.

It was also suggested that, as part of our fact-finding investigation, the Subcommittee on Oversight examine the current law that allows the suspension of CBI benefits during the import investigation period. Jamaican officials recommended that the United States not suspend benefits in the period during which an investigation of a challenge was underway.

Agricultural exports to the United States

Jamaican officials and business people identified some of the problems of exporting agricultural products to the United States. The example was given of the attempt by Jamaica to export "ackee", a vegetable locally grown in Jamaica. While ackee is exported to the EEC, it does not meet FDA standards for entering the U.S. market. Jamaican exporters also encountered problems exporting citrus products to the United States. In that case, the U.S. Department of Agriculture determined that citrus products from Jamaica did not carry a fruit disease. However, the determination was made only after the loss incurred by the Jamaican industry proved to be too severe to revitalize citrus production.

Investment promotion and U.S. market access

In discussions with both Jamaican officials and the business community, investment promotion and the inability to penetrate U.S. markets were identified as the primary impediments to taking advantage of the CBI. Because the U.S. markets are varied and diverse, it is questionable whether Jamaican industries can provide adequate quantities and assure deliveries on a timely basis once markets and individual customers have been identified. Continued U.S. AID funding for investment promotion activities is greatly desired and, in the view of the Jamaican business community, essential to their development of new industries and their efforts to diversify their economy.

Extension of the CBI legislation

Jamaican officials and business people explained the need to extend the CBI beyond the initial 12-year period. Suggestions included extending the CBI for an additional 12-year period, or, alternatively, extending the termination date so that the 12-year period begins at the time the investment comes into existence.

Because private investment in Jamaica has not grown rapidly in the first 3 years of the CBI, it is feared that Jamaica will be unable to attract new investment unless the CBI is extended. It was noted that any potential investors would need several years to survey marketing potential as well as to establish the industry. In addition, investors could generally expect to take up to 5 years to recoup investment and to become profitable. Thus, it is likely that an investor will not be able to receive the full benefit of the CBI's duty-free treatment within the first 5 years of investment. Investors will be discouraged from investing in Jamaica and other CBI countries unless they will be able to benefit from duty-free treatment for an extended period of time after making their initial investment.

2. COSTA RICA

A. ECONOMIC AND POLITICAL DEVELOPMENTS SINCE ENACTMENT OF THE CBI

Since the CBI's enactment Costa Rica has actively engaged in a program to take advantage of the CBI primarily through the development of new agricultural commodities. Costa Rica has traditionally depended upon its exports of coffee, bananas, sugar, and beef. During the sixties and seventies, Costa Rica exported most of its products to its regional trading partners in the Central American Common Market (CACM). Subsequently, the CACM ceased to effectively function due to social, economic and political uncertainties in the region. In order to increase its foreign exchange, Costa Rica must diversify away from production exclusively for a small regional market. Such diversification requires restructuring the Costa Rican economy to become more competitive in the world market. Costa Rica must also increase its imports of raw materials necessary for industrialization. To do so is particularly difficult when the country does not have foreign exchange to pay for such imports.

Costa Rica had debt payments of one-half of its export earnings. Immediately prior to the presidential elections in 1986, Costa Rica failed to meet the terms of its International Monetary Fund standby agreement. Under President Oscar Arias, the Costa Rican Government is currently attempting to meet those terms.

Costa Rica is the first democratic government in Central America and is a model democracy in Central and Latin America having a hundred years of a democratic system. The primary concern of the Costa Rican Government relates to its ability to reach the country's economic development goals. If the Costa Rican Government cannot meet its basic needs for development, the system of democracy could be threatened by Communist forces in the region. Thus, the political climate could be directly affected by the ability of CBI in the short-term to assist Costa Rica in its long-term goals.

B. PRIMARY ISSUES OF CONCERN AND RECOMMENDATIONS

The Costa Rican Government officials and business leaders expressed several key concerns regarding their efforts to take advantage of the CBI. Among those concerns are: the impact of drastic reductions in sugar quotas; the recent countervailing duty and antidumping case against the Costa Rican exporters of cut flowers to the U.S. market; growing protectionism in the United States; the expansion of product coverage under the CBI; and the problems encountered in gaining access to U.S. markets.

Sugar quotas

Costa Rica is faced with many of the same problems expressed by other CBI beneficiary countries as a result of the vast reduction in sugar quotas. See, Appendix A, CRS Report, p. 17. The government stressed its concern that such a drastic reduction in sugar quotas of 46 percent will have an adverse effect on its ability to improve its balance-of-payments since sugar is the chief earner of foreign exchange.

Costa Rican cut flower case

The Costa Rican Government officials expressed their concern over the countervailing duty and potential antidumping duties on the cut flowers export to the United States. See, Appendix A, Congressional Research Service Report, p. 14. The Government is concerned that the cut flower case merely indicates the extreme vulnerability of Costa Rican exports to the imposition of countervailing duties in the United States. The U.S. domestic industries need not prove injury for a countervailing duty determination because Costa Rica has not adhered to the General Agreement on Tariffs and Trade (GATT). Costa Rica noted that it has requested accession to the GATT and has presented a formal memorandum on which it is now awaiting comment. The Costa Rican Government officials are concerned that the country will still face difficulties during the period before it becomes a member of GATT and requested that the injury test be applied during that interim period. Members of the delegation, including administration officials, emphasized the U.S. obligation as a member of the GATT to apply the GATT provisions without exception. Ambassador Clayton Yeutter explained that the United States cannot ignore domestic law and provide the injury test before Costa Rica becomes a full contracting member of the GATT.

In the cut flower countervailing duty and antidumping cases involving more than one country, imports from all countries under investigation are pooled together to determine injury. Costa Rica has requested that United States not include its cut flower imports with those of other U.S. trading partners in determining injury. The Costa Rican Government argues that its imports are substantially less than those of other producers and therefore, are not on the same footing as those of other trading partners.

Protectionism

Costa Rican business people identified growing protectionism as an impediment to the growth of business and trade and as a deterrent to encouraging new investment in the region. Evidence of this growing protectionism, as identified by the Costa Rican business community, was the recent change in the laws with respect to the duty-free treatment of ethanol from the CBI beneficiary countries and the recent decision to impose countervailing duties on subsidized exports of cut flowers from Costa Rica. Costa Rican business people fear that whenever Caribbean Basin nontraditional export industries successfully penetrate the U.S. market, U.S. industries will take action to restrict duty-free imports from competing with similar U.S. products.

The Costa Rican officials expressed concern on the impact of H.J. Res. 738, which would limit the use of funds by the Department of Commerce for the development of tourism. Leaders of the business community noted that currently only 25,000 tourists annually visit Costa Rica. They would like to increase the number of tourists by 100 percent. A 100-percent increase in the number of tourists would only amount to 50,000 tourists per year. Although this is only one-tenth the number of tourists that vacation in Jamaica, the impact to the Costa Rican economy would be significant.

Expanding product coverage under the CBI

Both Costa Rican Government officials and business people requested that the Congress examine the list of items that remain dutiable under the CBI. One item of particular interest to the Costa Rican export industry is tuna. The government of Costa Rica noted that duty-free treatment should be considered in light of its recent subscription to the Eastern Pacific Tuna Agreement and the interest of local businessmen in setting up cannery operations in Costa Rica.

Investment promotion and U.S. market access

Another chief concern expressed by members of the Costa Rican business community was the Costa Ricans' lack of knowledge of the U.S. markets. Historically, many business people in the region have produced exports for much smaller markets. They often lack the skills and knowledge to locate buyers for Costa Rican products in U.S. markets and to know what amounts should be produced for such markets. The Costa Rican business community recognized its continued need for further assistance in market development and in identifying new U.S. buyers.

In addition to the problem of lack of knowledge of the U.S. markets, both the Costa Rican Government and the business community expressed concern over difficulties encountered by Costa Rican exporters in getting determinations by the U.S. Customs Service on the eligibility of products under CBI. Inability to receive determinations from the U.S. Customs Service in a timely manner and prior to the shipment has become an administrative obstacle to the implementation of CBI.

C. ECONOMIC ASSISTANCE

Costa Rica receives more U.S. assistance than any other country in Central America or the Caribbean. (See, Appendix A, CRS Report, pp. 25–31.) U.S. AID has provided $800 million in fiscal year 1987 economic support funds (ESF) and food commodities, such as wheat, are provided by the United States through a food assistance program under Public Law 480. In 1982, the country was bankrupt and kept afloat by the economic support from the United States. Similar support from the InterAmerican Development Bank, World Bank, and the International Monetary Fund lagged far behind the amount of U.S. assistance. There also has been a huge effort by the U.S. Government to assist in the privatization of government-owned enterprises. The number of government-owned enterprises in Costa Rica was reduced from 24 to 11 between the years 1980 and 1986.

The Government of Costa Rica is concerned that if current ESF levels are lowered in conjunction with declining sugar quotas, the current debt crisis will be further intensified. In addition, the Costa Rican Government noted that it cannot meet the terms of an IMF standby agreement, so as to qualify for an IMF loan, unless harsh measures are taken that will further depress the local economy. Thus, both govenment officials and business people urge continued assistance at current levels to help meet those terms. Otherwise, the negative impact on the Costa Rican economy could result in political instability and increase the influence of non-democratic political forces in the region.

3. Barbados

A. ECONOMIC AND POLITICAL DEVELOPMENTS SINCE ENACTMENT OF THE CBI

Barbados, which has one of the most developed economies in the Caribbean, has not experienced much growth since CBI was enacted. Foreign exchange earnings from traditional export commodities of sugar and bananas have declined in the past several years. Unemployment is a major problem in Barbados and is estimated to have reached up to 35 percent in 1986. Barbados has not been able to attract investment in those industries that can take advantage of the duty-free provisions of the CBI because of its relatively high wage rate as compared to other Caribbean nations. However, Barbados has signed a TIEA and also has a tax treaty with the United States. Benefits resulting from the tax treaty are of primary importance to the Barbadian economy, as are the trade and tax benefits under the CBI.

One factor contributing to the high unemployment rate in Barbados is the decline of light manufacturing industries, particularly the garment industry. Because wages are less competitive in Barbados than in Jamaica and other Caribbean islands and Central America, there is less incentive to invest in light manufacturing industries, such as the textile industry. Consequently, such industries have generally declined in Barbados.

To the extent the textile industry has existed, most of its products were developed for regional markets rather than for the U.S. market, or other markets outside of the Eastern Caribbean. In fact, production has primarily been geared to the market in Trinidad and Tobago. Therefore, when Trinidad and Tobago experienced a major downturn in its economy due to the decline in oil prices, the Barbadian light manufacturing industry lapsed into decay. Garment production for worldwide markets generally has developed in other Caribbean Basin countries where the cost of labor is much lower.

A second factor contributing to the rise in unemployment, is the recent departure of INTEL, a telecommunications firm that employed over 800 Barbadian workers. INTEL was the single largest employer in Barbados.

While labor costs are higher in Barbados than in most of their neighboring states, educational standards are much higher with a 99 percent literacy rate. The higher level of education coupled with the relatively low wage rates, as compared to the United States, have attracted investment in the service industries, such as data processing. For example, American Airlines has recently set up operations in Barbados to process airline ticket information for all of its operations.

Investment in electronic assembly industries is growing in Barbados, however its electronic parts are not exported to the United States duty-free under CBI. Electronic components and parts assembled in Barbados do not qualify for duty-free treatment under the CBI because the products do not meet the local content requirements under the "value-added test." In order to meet the "value-added test," the product must be substantially transformed and must have at least 35 percent of its value added in the Caribbean Basin country, or 20 percent of its value added where 15 percent of the value of the product is attributable to U.S. labor and parts. Nonetheless, the lower labor cost, as compared to that of the United States, along with the ability to train well-educated workforce in Barbados has allowed for increased investment in the electronics industry. One concern raised by an electronics investor was that import duties, such as 15 percent consumption tax and 12 percent stamp tax charged against raw materials and components imported into Barbados for assembly, increased the overall cost of production. Such local taxes are not included in the local content component when determining how much value has been added to the product by the process done in a CBI beneficiary country. The Barbadian Government is encouraging new investments by allowing certain industries that import components or parts for assembly to qualify for a tax exemption under local law.

B. PRIMARY ISSUES OF CONCERN AND RECOMMENDATIONS

The Government of Barbados and the Barbadian business community identified some of the impediments to economic development in Barbados and the ability of Barbadian entrepreneurs to take advantage of the CBI. Among their key concerns are: the reduction in sugar quotas; the U.S. standards for product entry; the ability of small producers in Barbados to penetrate U.S. markets; and the possibilities for attracting industries that could take advantage of U.S. Government procurement contracts.

Sugar quotas

The Barbadian economy was hard hit by the 46 percent reduction in sugar quotas in 1987. The drastic reduction in sugar quotas has had a more dramatic effect in Barbados than in many other CBI beneficiary countries due to the structure of its agricultural sector, which is not geared toward diversification. The agricultural sector has developed only two crops for export—sugar and bananas. Barbados' sugar industry is comprised of a few large estates on which two export crops have been developed with primary emphasis on the development of the sugar industry. Because the soil is unsuitable for cultivation of many other crops and due to the plantation style system of growing crops, there has not been a major program to diversify the agricultural sector with the decline of sugar.

Product entry into the United States

Barbadian Government officials and business people expressed concern over the ability of U.S. Government agencies to determine, in a timely manner, whether an agricultural product meets the standards for entry into the U.S. market or whether it should enter duty-free under the CBI. Barbadians specifically noted their difficulties in receiving responses from two Federal agencies, the Food and Drug Administration (FDA) of the Department of Agriculture (USDA) and the U.S. Customs Service. Government officials pointed out that it is not always easy to understand what steps must be taken to meet FDA labelling requirements, nor where to go in the Department of Agriculture for clarification. Because of the difficulties in determining whether products meet the standards to enter U.S. markets, Barbadian Government officials suggested that the United States provide marketing and technical assistance to assure that food imports from Barbados meet USDA quality control standards, and FDA labelling and content requirements in the case of processed foods.

Investment promotion and access to U.S. markets

Both Government officials and business people identified the inability for small local producers to penetrate the U.S. markets as one of the chief reasons why the CBI did not meet with the anticipated success in Barbados. Products from Barbados must serve a small market since businesses in Barbados are unable to reach economies of scale that allow them to compete in larger markets.

Local business people also discussed other problems with marketing costs and identifying suitable markets for products. Because marketing costs often reach as high as $100,000, investors working with limited capital find it difficult to take advantage of the CBI. Local business people suggested that the United States provide equity funding for small businesses through a Caribbean-based investment corporation. They noted that it was difficult for new small businesses to raise venture capital.

Industries with U.S. Government procurement contracts

The Barbadian Government would like to see more off-shore defense industries set up operations in Barbados and local businesses to be able to take advantage of U.S. procurement contracts. The Barbadian Government officials suggested that the United States design a program to assist the Barbadian Government in promoting investments that would take advantage of such contracts. Government officials noted that Barbados does not receive such assistance through U.S. AID and that investment assistance in the region is directed to the smaller or less developed Eastern Caribbean States.

4. Eastern Caribbean States

A. ECONOMIC AND POLITICAL DEVELOPMENT SINCE ENACTMENT OF THE CBI

The smaller Eastern Caribbean States (ECS) are distinguishable from the other Caribbean countries by their size and lack of infrastructure development. Because of these factors, the smaller Eastern Caribbean States have not been able to fully take advantage of the CBI and develop their economies as rapidly as the larger and more developed countries.

The CBI's lack of success in the ECS is not only due to the lack of infrastructure development, but also due to the fact that these countries are geographically farther away from the United States. The distance from U.S. markets results in higher freight rates, and when coupled with the comparatively higher cost of labor, does not attract many of the investments in industries that have met with success in other CBI countries. For example, certain light manufacturing industries such as the textile industry and other assembly operations have not developed in these islands. There is, however, potential for significant agricultural development. Tourism has not grown substantially due to poor port facilities, telecommunications systems, and other infrastructure problems.

The future of the success of the CBI in these countries lies in the ability to provide the infrastructure that is necessary to allow these countries to compete with other CBI beneficiary countries. The ECS are confronted with balance of payment and debt problems, similarly to those of the other CBI beneficiary countries. The United States has provided both economic support funds and development assistance to those countries. The U.S. AID program in the Eastern Caribbean States is comprehensive and extensive. The U.S. foreign assistance levels to the region have been historically high, with an average high of $50 million a year, which amounts to $80 or $90 per capita. In fact, if compared on a per capita basis to other U.S. AID programs, it is the largest program in the world. The U.S. invasion of Grenada boosted support for this program. The problems in dealing with the Eastern Caribbean States include the scale and size of the population and the high-cost labor force. In addition, there are structural problems in that many of these countries lack infrastructure.

B. PRIMARY ISSUES OF CONCERN AND RECOMMENDATIONS

In an effort to gain understanding of their specific needs and problems of the ECS, the delegation met with a group of business people from the Eastern Caribbean States followed by a forum which included some 100 political leaders from the region as well as business leaders in the private sector. Both public officials and business people from the ECS identified those areas in which the CBI could be improved. In addition, they expressed their concerns as to why the CBI has met with very little success in the ECS thus far. The ECS countries clearly feel they are different from the "larger" states and should be treated differently.

The representatives from the ECS identified several primary concerns which include: the procedure for getting approval for agricultural exports from the CBI that enter the U.S. markets; the impact of the reduction in sugar quotas particularly on St. Christopher-Nevis; the ability to identify and gain access to U.S. markets; the expansion of product coverage under the CBI; the use of funds available under section 936 of the Internal Revenue Code; and, overall development assistance.

Sugar quotas

An issue of particular concern to the Government of St. Christopher-Nevis is the drastic reduction in sugar quotas. St. Christopher-Nevis is the primary sugar producer in the East Caribbean. Prime Minister Kennedy Simmonds of St. Christopher-Nevis explained that the economy, which traditionally has depended almost exclusively on sugar production for foreign exchange earnings, is devastated by the drastic reduction in sugar quotas. Because of the lack of infrastructure, diversification away from sugar into new products and tourism has been slow.

Expanding product coverage under the CBI

Representatives from the ECS urged the Congress to review the list of products exempt from duty-free treatment. The representatives emphasized considering the removing of tariffs on exports of textiles and leather goods from the CBI given the current low-level of CBI exports to the United States.

Investment promotion and access to U.S. markets

The Eastern Caribbean States have experienced extreme difficulty in developing products for the U.S. market. Even among those entrepreneurs who have met with success, finding suitable markets for goods produced in the ECS was identified as a serious impediment to taking advantage of the CBI. Because marketing costs are a large portion of any investment in the Caribbean Basin countries, ECS representatives recommended that the Congress allow such costs to be included in determining the amount of value added to a product from a Caribbean Basin country which must meet the 35 percent value-added test in order to qualify for duty-free treatment under the CBI.

Agricultural exports to the United States

The Eastern Caribbean States have experienced some set-backs in their exports of agricultural products to the United States. Their representatives expressed reservations about developing new agricultural products in the Eastern Caribbean States because of the uncertainties and lack of clarity of standards are for importing agricultural products into the United States.

Representatives from the ECS suggested appointing a single contact person in the U.S. Department of Agriculture, the Food and Drug Administration, and the Environmental Protection Agency to determine whether an agricultural product from the CBI is eligible for import into the U.S. markets.

Section 936 funds

Several of the Eastern Caribbean States representatives discussed the availability of financing for investments according to the provisions of section 936 of the Internal Revenue Code. The availability of funding is particularly important to St. Lucia and Grenada, two countries that have signed TIEAs since the beginning of 1987. Representatives from the Eastern Caribbean States recommended that section 936 funds be made available for the development of the tourism industry; which is potentially the largest earner of foreign exchange in many of the smaller Eastern Caribbean States.

Extending the CBI legislation

The ECS representatives recommended extending the CBI legislation at least until the year 2000. Under the present law, the CBI would expire at the end of 1995. The extension would provide more time for those countries to attract investment and to build the infrastructure necessary to attract new investments.

U.S. development assistance to the Eastern Caribbean States

The U.S. AID program for the Eastern Caribbean States has focused on developing non-traditional-agricultural products and diversifying industry, including light-manufacturing industries. Much of the funding for the region is done through the Caribbean Association of Industry and Commerce and regional financial institutions. Government officials from the Eastern Caribbean States stressed the importance of U.S. AID support. Prime Minister Herbert Blaize of Grenada requested the the United States continue economic support and development assistance at the current levels for at least 3 more years. Otherwise the Eastern Caribbean States, particularly Grenada, will not see the benefits of the CBI. Other leaders in the region expressed similar concerns.

5. Dominican Republic

A. ECONOMIC AND POLITICAL DEVELOPMENTS SINCE ENACTMENT OF THE CBI

The Dominican Republic has been one of the best performers under the CBI. The Dominican Republic's effort to take advantage of the CBI and otherwise develop new industries has resulted in a 70-percent increase of nontraditional exports from $84 million dollars in 1983 to $140 million dollars in 1986. The greatest growth has been in textiles and agribusiness. The development of free trade zones, which are industrial parks that export duty-free products, has been a great part of this effort. While some of the greatest growth has been in industries that are unable to take advantage of the trade benefits under the CBI, both government officials and the business community indicate that the CBI, even if it is only the concept, has attracted attention to the Caribbean Basin region and thereby encouraged investment. Dominican business leaders were impressed with the increase of nontraditional exports in only 3 years of the CBI. In their words, "CBI is a baby; it is a healthy baby and it is growing."

The growth of nontraditional exports has occurred in the face of adverse economic conditions. Before the Dominican Republic adopted stabilization measures in 1985, it was facing declining exports and investments, declining Government revenues, increasing unemployment, inflation, and an inability to pay its growing debt owed to private banks and foreign governments. In April 1985, the Dominican Republic rescheduled its debt. In the process of doing so, the Government took austerity measures such as devaluating the local currency, and decreasing the cost of electric power to consumers. See, Appendix A, CRS Report, pp. 27–28, 30. In 1985, the gross domestic product fell by 2.2 percent with inflation at 38 percent and unemployment at 25 percent. Current high budget deficits, increasing unemployment, and inflation, are primarily due to the cut in sugar quotas and the world market prices of sugar. As recently as 1981, the Dominican Republic had sales of $500 million in sugar. This amount was decreased to $180 million by 1986.

The drastic cuts in sugar quota has had the most dramatic effect on the economy during the past 3 years. Since 1983, the state sugar corporation has decreased its output from 12 sugar mills to 6. As a result of the closing of six mills and the continuing trend of oversupply on the world market, sugar producers are looking for other markets and other uses for these lands. Therefore, most of the lands traditionally used for sugar crop production will be used for the development of new industries and investments. For example, it is likely that the sugar diversification program will include the development of the tourism industry on land once used for sugar crop production. The country could be threatened by political instability due to economic impact of the reduction in sugar quotas. For example, loss of jobs in the sugar industry are not balanced by the gain of jobs in new industries. In addition, the skills required for industries, such as the tourism industry, are not parallel to those required for sugar production. Consequently, there is no easy transfer of workers from the sugar industry to the tourism industry.

It is feared that if economic reform measures fail to provide employment for unskilled and unemployed sugar industry workers, these displaced workers could lose confidence in the democratic system of government and cause a critical problem for the new government that came into power in 1986. It is a serious problem.

B. PRIMARY ISSUES OF CONCERN AND RECOMMENDATIONS

The Government of the Dominican Republic and the Dominican business community expressed their concerns regarding the future of the CBI and the ability of the Dominican Republic to take full advantage of the trade and tax benefits under the CBI legislation. Their key concerns include: the impact of the reduction in sugar quotas on their balance of payments; the signing of a tax information exchange agreement; the problems encountered in exporting agricultural products to the U.S. markets; the ability to gain access to U.S. markets; and, the extending the CBI beyond the 12-year period.

Sugar quotas

The Dominican Republic is faced with a critical balance of payments problem as a result of the drastic reduction in sugar quotas and rapid decline of that industry. The economy is almost totally dependent upon imported oil as its primary source of energy, because a large portion of the foreign exchange earnings, which traditionally have come from sugar exports, are used to pay for oil imports. The Dominican Republic has been unable to pay its outstanding debts. The Dominican Republic Government officials stressed that the reduction of sugar quotas by 46 percent in 1987, coupled with further reduction of U.S. AID economic support funds in 1987, will have an additional negative impact on the country's already critical balance of payment situation.

While the decline of the sugar industry is a major impediment to economic development and growth in the Dominican Republic, their program for diversification away from a sugar-based economy has been the most successful among the CBI countries. Diversification it taking place in five areas: agribusiness; the development of free trade zones; textiles; tourism; and, mineral exploitation. In 1986, free trade zones employed 40,000 people. There are in existence today six free trade zones and fifteen others have been approved. Diversification into citrus products and pineapple production will continue to increase employment and provide additional foreign exchange to the country. The new "Super 807" agreement gives the Dominican Republic almost unlimited access to U.S. markets for garments cut from U.S. fabrics thereby increasing diversification into textile manufacturing. Diversification into tourism has increased since 1984 from 420,000 to 760,000 in 1986. Tourism brings in three times as much foreign exchange as sugar and four times as much as gold.

Tax information exchange agreement

The Dominican Republic has not entered into a tax information exchange agreement. At the present time, the tax agreement must be ratified by the Congress of the Dominican Republic. The agreement has not received full support from the private sector although Government officials express a willingness to enter into an agreement at this time.

The lack of support for TIEA's by the private sector in the Dominican Republic is similar to that expressed by many other private sector representatives in the Caribbean Basin region. There appears to be concern at least in part, that a TIEA will allow the Government to discover underreported income from U.S. sources or violations of any local currency restriction rules. Further, some expressed concern with the possibility that information obtained from the United States could be misused. As discussed by the delegation, the TIEA is essential to the United States to assure that the banks in the Dominican Republic are not being used for money laundering, drug-trafficking, and other illegal purposes. Any abuse of the terms of a TIEA, such as using the information for non-tax-enforcement purposes will result in immediate termination of the agreement by the U.S. Department of the Treasury.

The delegation has also noted that the U.S. Government's desire to obtain such information does not outweigh its desire to maintain the integrity of the TIEA as agreed upon by the United States and the governments of the Caribbean Basin countries. Therefore, the delegation does not support the private sectors' suggestion of providing a one-way disclosure of tax information to U.S. authorities, since the governments in the region have urged the two-way disclosure currently provided in the TIEA.

One of the most attractive features for the Dominican Republic entering into a TIEA is the availability of benefits under section 936 of the International Revenue Code. The provision allows QPSII funds held in banks in Puerto Rico to be used for investment in the Caribbean. This additional source of financing for the development of "twin plants" in the Dominican Republic and Puerto Rico could well be used for infrastructure and other opportunities in the Dominican Republic. The Dominican Republic Government officials expressed some concern over the means by which section 936 will be allocated based on the preliminary discussions with Government of Puerto Rico. They are concerned that the terms under which loans will be made available will not allow many businesses, who are otherwise unable to get financing for CBI investments, to qualify for section 936 funds. Because the Government of Puerto Rico has not made clear the terms under which section 936 funds will be provided for CBI investments, the Government of the Dominican Republic has asked the delegation for further guidance on how section 936 funds will be administered by Puerto Rico and whether the U.S. government will play a role in monitoring the distribution of these funds.

Agricultural exports to the United States

Government officials in the Dominican Republic are concerned that agricultural products have encountered some problems in entering the United States due to the inability of such products to meet U.S. quality control standards and inspections. In addition, Dominican agricultural producers have raised concerns about inconsistent treatment of their products by Customs officials at the various U.S. ports of entry.

Investment promotion and U.S. market access

Both government officials and business people in the Dominican Republic noted that U.S. markets are difficult to penetrate. Therefore, assistance in identifying markets in the United States for Dominican exports and a marketing assistance program could greatly enhance the CBI.

Extension of the CBI legislation

Both government officials and private sector agribusiness investors expressed the need to extend the CBI beyond the 12-year period, particularly in the area of agricultural development. Because agricultural products generally have a 2- to 3-year startup period for the development of the crop, agribusiness industries will need more time under CBI to enter U.S. markets and to become profitable investments.

C. OTHER ISSUES

U.S. development assistance to the Dominican Republic

Development assistance from the United States has been in the form of U.S. AID economic support funds, for balance of payment support, and development assistance funds primarily used for the development of nontraditional export industries. In addition, the U.S. Department of Agriculture donates dairy products and wheat to CBI beneficiary countries to compensate for the reduction in sugar quotas and loss profits from declining sugar production as provided under section 416 of the Agriculture Act of 1949 as amended in 1982. These commodities are being sold on the local market and the proceeds from those sales are placed in a special fund. The fund provides loans for investments related to diversification of the sugar industry. Commodities contributed to the Dominican Republic as part of the Department of Agriculture's program earned $20 million in fiscal year 1986. Anticipated earnings from these commodities from 1987 is $46 million.

Development of the economy of neighboring Haiti

The Government officials of the Dominican Republic encouraged the United States and the Dominican Republic to combine their efforts to enhance progress in Haiti. The Dominican Republic Government officials believe that Haiti's progress is linked to political stability in the Dominican Republic. The Government of the Dominican Republic has expressed its willingness to discuss with the new Government of Haiti, the reopening of the borders between these two countries that share an island. The Dominican Republic Government officials have also expressed their desire to resume normal trade relations between the two countries.

6. HAITI

A. POLITICAL AND ECONOMIC DEVELOPMENTS SINCE ENACTMENT OF THE CBI

The operation of the Caribbean Basin Initiative in Haiti is different from that in other CBI beneficiary countries due to the difference in the political situation. The level of financial assistance from U.S. AID has been greatly enhanced due to the recent change in government. As a result of the departure of the Duvalier government in February of 1986, Haiti has an opportunity to build a solid democratic government and institutions. Lt. Gen. Henri Namphy, currently acting head-of-state, and the ministers of the transitional government are assisting in changing internal policies so that a climate for investment and free trade can further develop.

Since the departure of Duvalier in February 1986, the transitional government under the leadership of Lt. Gen. Henri Namphy has adopted a number of reforms. In October 1986, an election of a constituent assembly was conducted. On March 29, 1987, a constitution was approved which provides for an interim electoral commission. Local elections are to be held in July 1987, and the country's first democratic national elections are to be held in November of 1987.

The United States has increased its financial assistance because of the change in the political environment and is working with the transitional government in developing political and economic institutions. U.S. assistance constitutes approximately 20 percent of the Haitian government's operating budget.

Foreign assistance to Haiti

Haiti will receive in fiscal year 1987 a total of $101 million in foreign assistance from the United States. See Appendix A, CRS Report, pp. 25, 28, 30. This assistance will be in the form of economic support funds to improve Haiti's balance of payments situation, provided that the Haitian Government takes certain steps toward economic development.

Financial assistance includes food aid, development assistance funding for family planning, agricultural development, and reforestation. Assistance is also received from a number of private voluntary organizations that are involved in education and reforestation projects.

Reforestation is one of the primary concerns in the country since erosion is contributing to the inability to develop agricultural products. The U.S. Government has invested $8 million in the planting of trees each year and has engaged in a 4- or 5-year program that will encourage reforestation.

There have been minor incidents of disruption since the change of government. Adverse publicity concerning the political situation, and the uncertainty that Haiti will institute a democratic government, have been the major disincentives for investment in Haiti at this time. A recent investment mission in Haiti led by the Overseas Private Investment Corporation targeted Haiti as one of the primary countries for investment over the next few years.

In the area of economic reforms, the transitional government has restructured sectors of the economy and taken measures such as breaking up cartels established under Duvalier. Many of these reforms conform to the objectives outlined by U.S. AID and the International Monetary Fund that will allow Haiti to qualify for continued financial assistance.

B. PRIMARY ISSUES OF CONCERN AND RECOMMENDATIONS

The Haitian Government officials and the business and investment community expressed their concerns regarding the future of the CBI in Haiti. Among their key concerns are: the role of development assistance in further investment in Haiti; the benefits of signing a TIEA; and, expanding product coverage under the CBI.

Development assistance

Government officials and the business community acknowledge as their primary concern the ability to bring Haiti to the level of other Caribbean Basin countries through infrastructure development. Investors in Haiti could then take better advantage of the CBI. Private sector investors estimated that this would take a $1.5 billion investment in Haiti over the next 5- to 7-year period. The Minister of Finance, Mr. Leslie Delatour, explained that economic development and the ability to take advantage of the CBI could be improved if the United States could assist in persuading multilateral institutions, such as the Inter-American Development Bank and the World Bank, to give additional assistance to Haiti. They recognized that through its increased U.S. AID commitment, the United States has demonstrated the importance of economic development in Haiti to the United States and to the Western Hemisphere. The level of increased financial assistance from the United States runs counter to overall U.S. foreign aid spending which is marked by a general trend toward cutbacks worldwide.

Tax information exchange agreement

In meetings with government officials, the Government of Haiti announced that it would probably sign a tax information exchange agreement in the near future. Business leaders in Haiti expressed their interest in being able to take advantage of the tax benefits to be derived from a TIEA. The convention tax deduction could be of assistance to the development of the tourism industry. Some development of tourism has already taken place in the Cape-Haitien area, where the cruise ship industry has developed a resort at Labadee. The business community explained, however, that tourism has suffered in Haiti due to the adverse publicity of the political and health conditions in the country over the past few years. The Haitian business leaders noted that the ability to change the public image on Haiti is crucial to their ability to develop a tourism industry.

The most important benefits of a TIEA for Haiti could be those under section 936. Investors in Haiti particularly look forward to the opportunity to take advantage of section 936 benefits in the event that the Haitian Government signs a TIEA. They feel that investments financed by section 936 funds will not only greatly benefit Haiti, but will provide more benefits to Puerto Rico than will similar investments in most other CBI beneficiary countries. It is viewed that twin plant operations would be extremely beneficial because of Haiti's close proximity to Puerto Rico and complementary skills of its labor force.

Expanding product coverage under the CBI

Haitian Government officials requested that the Congress review the list of items that are excluded from duty-free treatment under the CBI. They noted that the industries that have been most successful in Haiti are those whose products are exempt from duty-free treatment, such as textiles and leather flat goods. They acknowledge that the "Super 807", will be beneficial in the expansion of their textile operations, especially if Haiti can attract more U.S. investors to the country.

C. HAITI'S RELATIONSHIP WITH NEIGHBORING DOMINICAN REPUBLIC

The Government of Haiti expressed interest in resuming trade relations with the Dominican Republic. Haitian Government officials noted, however, that their focus is generally on trade with the United States and major industrialized nations rather than trade within the region. Government officials identified several areas in which cooperation with the Dominican Republic would benefit both of these countries that share an island. These areas included developing sources of energy, developing a joint infrastructure, and regulating immigration between the borders of the two countries.

III. CARIBBEAN BASIN INITIATIVE PROJECT SITE VISITS

The members of the delegation visited the following industrial sites, plants, and facilities.

JAMAICA

Jamtex
Kingston Free Trade Zone
Kingston, Jamaica

Jamtex is a Jamaica-based U.S. company that produces apparel for the U.S. market. The delegation met with the plant manager, Mr. White, and observed the sewing, packaging, and other assembly operations at the plant facility. Jamtex products enter the United States under tariff item 807. Jamtex uses 100 percent U.S. formed and cut fabric. Increased guaranteed access levels for Jamaica under the "Super 807" program has encouraged growth and expansion of their operations.

Slater Electronics
Kingston Free Trade Zone
Kingston, Jamaica

Slater Electronics is a wholly-owned subsidiary of a U.S. electronics firm. The operation in Kingston is an assembly operation. Products enter the United States duty-free under the CBI because enough value is added to the product in the assembly operation in Jamaica to meet the CBI country-of-origin requirement. The firm is able to meet "value added" requirements for duty-free treatment by adding 20 percent of the value using Jamaican labor and using U.S. parts to meet the remaining 15 percent value-added content requirement.

The members of the delegation observed the assembly operation and each stage of the processing conducted at the facility. The delegation discussed with Mr. Sylvester Morrison, the plant manager, the advantages of producing products for the U.S. market in Jamaica. The lower labor costs in Jamaica combined with duty-free treatment provided under the CBI enabled the U.S.-based parent company to increase its production and expand its business in the United States as well as conduct a highly profitable business in Jamaica.

For Slater Electronics the CBI duty-free treatment is a fundamental advantage of doing business in Jamaica. Slater Electronics would otherwise be unable to compete with industry competitors whose low-cost electronic assembly operations in the Far East undercut U.S. labor wage rates. Because more advanced stages of processing of electronic component parts will continue to be done in the United States, the U.S.-based industry would be able to survive competition from the Far East. If all stages of production were done in the United States, U.S. high-cost labor and competition from the Far East would force Slater Electronics out of operation.

Bob's Candies
35 Shannon Drive
Kingston Export Free Zone
Greg McCormack, Director/Manager

Bob's Candies is a wholly-owned subsidiary of the U.S. parent of the same name. The factory in Kingston makes candy cane sticks for export to the United States and the management hopes to export product duty-free to Europe under the benefits of the Lome III Convention, a duty-free arrangement with the European Economic Community, at some point in the future. The candy is made almost completely from sugar purchased in the United States. The company has experienced some problems in producing for the U.S. market. Among the concerns expressed are the cost of electricity in Jamaica, U.S. Customs Service delays, and the company's ability to expand its U.S. market. The delegation met with Mr. Bob Stanford, plant manager, toured the facility and observed the process of making the candy from cane sugar and packaging the product for export to the U.S. market.

Tropicana
7 Surbiton Road
Kingston, Jamaica
William Maloney, Managing Director

Tropicana's Kingston facility is a joint venture with Shell Oil and has received independent free zone status although it is not located in the Kingston Free Trade Zone. The facility produces and exports to the United States anhydrous ethanol. The delegation met with Mr. Richard B. Vind, owner, Mr. Will Maloney, plant manager of the facility, and Mr. Robert Butler, the engineer who designed the azeotropic distillation facility. Mr. Butler explained to the delegation the complex process of azeotropic distillation, which is necessary to produce anhydrous ethanol, and why such a process should not be considered a passthrough operation.

COSTA RICA

Flores del Cerros
San Jose, Costa Rica
Robert Nargang, Owner

The delegation met with producers of carnations for the U.S. market who have been affected by the recent suspension agreement signed by the Costa Rican Government, the producers, and the Department of Commerce (DOC) on January 5, 1987. The suspension agreement obligates the flower growers to refrain from using government input subsidies considered to be countervailable by the DOC. The Costa Rican cut flower producers explained that subsidies provided by the Costa Rican Government to the cut flower producers were necessary to keep small producers in operation. In their view, the withdrawal of the subsidy will force smaller cut flower producers out of business.

The delegation toured the cut flower operation which was developed on land previously used for cattle grazing. Feasibility studies conducted by U.S. agencies, along with the willingness of local investors to develop a new industry in an effort to diversify the Costa Rican economy, led to the emergence of cut flowers as a primary export industry taking advantage of CBI benefits. The countervailing and antidumping investigations have discouraged cut flower producers as well as other Costa Rican investors. They are concerned about unfair trade actions launched by U.S. producers whose products are competitive with Costa Rican exports to the U.S. market. They fear that similar actions will be taken if exports of Costa Rican industry become competitive with any other U.S. products.

BARBADOS

Caribbean Services, Incorporated
Newton Industrial Park
Barbados, West Indies

The delegation visited the operations of Caribbean Services, Incorporated, a joint venture between Westinghouse and TSI, a local company in Barbados. The operation in Barbados produces electronic cables and components that enter the U.S. market under tariff schedules 806 and 807. The components are made to U.S. military standards and are produced to fulfill a Government procurement contract between Westinghouse and the U.S. Government.

Westinghouse and TSI entered into their joint venture with a goal of training the Barbadian work force to both manufacture electronic components and to manage the local operation. With the assistance of the Barbados Industrial Development Corporation, a training facility was established providing training for up to 20 employees at the TSI operation. Ten instructors were initially brought from the United States until the company was able to certify instructors in Barbados. Because there is not enough value added to the products assembled in Barbados, these products do not qualify for duty-free treatment under CBI. Westinghouse, nonetheless, was influenced in its decision to relocate to Barbados because the highly educated work force is easily trained in operations and processing that require some skill. The wage differential in Barbados as compared to the United States is five to one. If such operations were conducted in the United States, the high cost of labor would force them to close because of their inability to compete with low-wage labor in the Far East. Now Westinghouse is able to compete by expanding those U.S. operations involved in the final stage process that use higher cost U.S. labor while doing less sophisticated electronic assembly operations at lower wages in the CBI. Westinghouse also has been able to increase its production and expand its operations in the United States due to the economic advantage of producing some of its parts in the CBI. Caribbean Service Incorporated intends to employ up to 350 Barbadian workers within 3 to 5 years of operations.

Transitor Barbados, Limited
Barbados, West Indies

The delegation visited the operations of Transitor Barbados, Limited, which is the leading exporter of electronic equipment. The delegation toured the facility with the plant manager, Mr. Dean Webber, and observed the assembling of hearing aids for the U.S. market. Transitor currently does not export to the United States under the CBI because not enough value is added to the product in Barbados to qualify for duty-free treatment under the CBI.

H&K Knitting Factory
Barbados, West Indies

H&K Knitting Factory produces textiles for the United States as well as for the local Barbadian tourist market. The delegation observed the knitting as well as sewing operations. The operation does not use U.S. fabric and cannot take advantage of tariff relief under 806 and 807, or take advantage of CBI. Both the fabric and yarn that is knitted into fabric are imported from Taiwan.

American Airlines
Barbados, West Indies

The delegation visited and observed the American Airlines data processing operations in Barbados. All flight information and cancelled ticket information is computerized at this location and transmitted to American Airlines centers in the United States. The data processing operation receives no benefits under the CBI. However, this operation is an example of the type of industry that is relocating to Barbados because of comparatively lower wages than the United States and because of the high level of education of the work force in Barbados.

DOMINICAN REPUBLIC

Hato Mayor Citrus Plant
Dominican Republic

In 1985 the Hato Mayor Citrus Processing Plant began its operation. This citrus plant is an investment which directly resulted from the CBI. Currently, Hato Mayor purchases citrus from local farmers. This fruit, which includes oranges and grapefruit varieties, is brought to the Hato Mayor Citrus Plant for sectioning and packaging into gallon jars. This product is primarily intended for institutional use. Approximately 50 to 60 percent of the product goes to a single buyer in the United States. While the majority of this product is produced for institutions, 28 percent of the citrus fruit is canned at Hato Mayor for the retail market. The processing of the fruit is labor intensive and requires the hiring of a number of workers to manually peel and section the fruit. While labor costs are low, processing in the Dominican Republic requires the use of expensive sources of energy as well as a water purification system. As the Dominican Republic diversifies production away from sugar, the citrus industry is targeted as an industry that can grow due to the climatic and agricultural conditions for favorably growing certain fruits. The citrus plant currently employs 250 workers.

Tabacalera Garcia
La Romana Free Trade Zone
La Romana, Dominican Republic

The delegation visited Tabacalera Garcia, a tobacco processing plant in La Romana Free Trade Zone owned by Consolidated Cigar Corporation of Secaucus, New Jersey. The plant produces both hand-made and machine-produced cigars for the U.S. market. The cigar production process is labor intensive. The delegation was given the opportunity to observe cigars being made by hand.

These cigars are produced generally from tobacco mostly grown in the Dominican Republic. The plant also imports tobacco from Brazil, Cameroon, and the United States for its products. Cigars and their containers are both packaged and labelled at this facility. In addition, wooden boxes are used to package high quality cigars and are also manufactured at the facility.

The plant has been in operation for almost 10 years and exports duty-free under the CBI. Prior to the enactment of the CBI, tobacco products entered the U.S. market duty-free under the Generalized System of Preferences. While there is no tariff on cigar imports, excise taxes are imposed on all tobacco products entering the U.S. market.

HAITI

Alpha Electronics
Port-au-Prince, Haiti

The delegation met with Mr. Andre Apaid, the owner of Alpha Electronics, and toured his electronic assembly operations at Sonapi Industrial Park. They observed the Haitian labor force at work, whose productivity is among the highest in the world. Alpha Electronics is producing electronic components for the U.S. and British markets. Products to the U.S. market enter duty-free under the CBI because they meet the valued-added requirement and the substantial transformation test.

A major impediment to using the CBI in the electronic assembly industry has been the inability of electronic assembly operations to meet the CBI value-added requirement for duty-free treatment. Under the CBI, the value-added test requires that 20 percent of the value of the product must be added in the CBI where 15 percent of its value is attributed to U.S. production. Many electronics manufacturers have argued that requiring 20 percent local content is too high given the low wages in the Caribbean. Although the cost of labor in Haiti is the lowest in the Caribbean, Alpha Electronics has been able to export under CBI by increasing the Haitian component through doing more processing in Haiti. This achievement in a market place which has significantly lower wages than Barbados or even Jamaica demonstrates that the value-added requirement in the CBI is realistic and reachable if more stages of the processing of the product are done in the CBI. Approximately 25 to 30 percent of the electronic components produced by Alpha Electronics are produced for large U.S. firms with military contracts.

MacGregor Sporting Goods
Port-au-Prince, Haiti

MacGregor Sporting goods is one of the largest U.S. operations in Haiti. The company produces baseballs, basketballs, uniforms and other sporting equipment and textiles for the U.S. market. Sporting equipment, such as baseballs and basketballs, enter the United States duty-free under the CBI. Uniforms and other garments are imported under section 807 of the U.S. Tariff Schedules. "Super 807" guaranteed access levels apply to uniforms and other apparel produced by MacGregor from U.S. fabric. The delegation observed the process of making baseballs, basketballs, and the assembling of uniforms and other apparel.

Much of the work, such as the stitching of baseballs, is done by hand. Members of the delegation acknowledged that they were particularly impressed with the performance of the Haitian labor force, which has a reputation as one of the most productive labor forces in the world. This reputation has encouraged MacGregor to expand its operations in Haiti despite the political and economic instability of the country over the past several years.

IV. SUBCOMMITTEE RECOMMENDATIONS FOR IMPROVING THE CARIBBEAN BASIN INITIATIVE

The Subcommittee on Oversight of the Committee on Ways and Means, in concluding its fact-finding investigation on the impact and effectiveness of the Caribbean Basin Initiative, carefully considered the numerous proposed changes offered by government officials and private sector investors in the Caribbean Basin countries. Meetings conducted in each country, in addition to hearing testimony and materials submitted to the subcommittee, proved to be instrumental to the subcommittee's insight and analyses into the effectiveness of the CBI legislation, and areas where legislative and administrative steps should be taken to strengthen the CBI.

The following list of recommendations is not meant to be inclusive of all the steps that could be taken to improve the CBI. Rather, the subcommittee members have developed a preliminary list of specific legislative and administrative recommendations which should be initiated at the first possible date. The recommendations of the Subcommittee on Oversight follow.

A. Passage of a Joint Resolution Reaffirming Congressional Commitment to the Success of the Caribbean Basin Initiative

The Subcommittee on Oversight recommends that the Congress join the subcommittee in formally expressing a commitment to preserving the integrity of the Caribbean Basin Initiative and to improving its effectiveness. A joint resolution of the Congress should be enacted to reaffirm congressional commitment to the CBI. The subcommittee considers it imperative that the Caribbean region be recognized as a national security interest of the United States. Further, to the extent that the Congress imposes legislative changes that are intended to improve the competitive environment for American industries and workers, it is important that such changes do not adversely impact the unilateral, one-way duty-free trade system available to designated beneficiaries of the Caribbean Basin Initiative. Recognizing the small amount of exports currently entering the U.S. market from the Caribbean Basin countries, changes in the trade laws should not impose an additional burden on the ability of Caribbean Basin countries to compete with exports from major U.S. trading partners. It is in our national economic and security interest to maintain this commitment.

B. Recommendations Within the Jurisdiction of the Committee on Ways and Means

The Subcommittee on Oversight requests that the full Committee on Ways and Means (and the Subcommittee on Trade) consider the following proposals:

1. LEGISLATION

a. Legislation should be enacted to extend the provisions of the Caribbean Basin Initiative beyond its current September 30, 1995 expiration date. Suggested legislation would extend the tax and trade benefits provided under the CBI for a continuing 12-year period. In doing so, CBI benefits would be initially extended to December 31, 1999. Each year after 1987, the CBI would automatically extend for an additional 12-year period, thereby retaining a constant 12-year CBI program. The CBI would continue until the Congress affirmatively acted to phase out the CBI. Any expiration of the CBI should be structured as an annual 1-year reduction in the remaining 12-year period, as provided under present law.

The proposal would provide a guaranteed 12-year duty-free period for exports from CBI beneficiary countries. Currently, investors are only assured of receiving the benefits of the CBI for 8 additional years, until 1995. Representatives of every country visited by the delegation requested an extension of the CBI for the purpose of being able to assure potential investors that the benefits of the CBI will continue well into the future.

In addition, the CBI designated countries should be required, to report to the Office of the U.S. Trade Representative: (1) the country's use and promotion of the CBI, (2) any change in government policies that encourages investment and promotes exports under the CBI, and (3) efforts that have been made to enter into a TIEA and/or use the tax benefits available thereunder. Such a report should be mandated for every 2 to 3 year period, beginning in 1988.

b. Legislation should be enacted to provide that articles assembled or processed from American-made parts or components enter the United States from CBI beneficiary countries totally duty-free. The provision would apply only to American goods repaired and altered (TSUS 806.20), American metal articles processed (TSUS 806.30), and American components assembled (TSUS 807.00) in a CBI beneficiary country.

Currently, the value of the American-made parts or components, sent to CBI beneficiary countries for assembling or processing, reenter the United States duty-free. Duty is paid, however, on the value-added portion of the article when returned to the United States.

The effect of such legislation would be to eliminate the duty assessed on the value-added portion of the article which is a result of the processing or assembling done in a CBI beneficiary country. Duty-free treatment on the value-added portion of the article would apply only where value is added, in a CBI beneficiary country, to 100 percent American-made parts or components. The provision was suggested by government officials in the Caribbean region as a means to encourage production sharing operations between U.S.-based industries and operations located in the Caribbean Basin countries.

c. Legislation should be enacted to provide for duty-free treatment of dutiable "exempt list" products exported from CBI beneficiary countries where the article is not produced or is in short supply in the United States. Such legislation would allow for duty-free entry of a product where the item is not produced in the United States, or where domestic supply is insufficient for domestic demand for that product. "Exempt list" products include textiles and apparel; footwear, handbags, luggage, flat goods, work gloves and leather wearing apparel; canned tuna; and petroleum products. It is expected that the proposal would provide duty-free status to only a very limited number of exports from the Caribbean Basin countries to the United States. Certain polyester yarn produced in Costa Rica, woven handicrafts produced in Guatemala, and a cotton sheeting used by certain U.S. manufacturers of garments, have been cited as products that might benefit under such a rule.

The provision should require the International Trade Commission (ITC), upon the filing of a petition, to make a determination on whether the article is (1) not produced in the United States or (2) produced in short supply in the United States; and, that a like or directly competitive article is not produced in the United States. The President would be granted authority to suspend current duties on the product based on the ITC determination. The product would remain duty-free unless a contrary ITC determination is made, based on a subsequent petition requesting reconsideration of the ITC's original determination. Such a petition could not be filed with the ITC until at least 1 year after the granting of duty-free treatment.

The goal of this provision is to expand the list of CBI products eligible for duty-free treatment in a manner that would not adversely affect existing U.S. business interests, and possibly assist some. Both U.S. producers using products made in the Caribbean Basin region and Caribbean Basin region exporters would benefit under the proposal.

In making this recommendation, the Subcommittee on Oversight does not recommend expanding duty-free treatment to an entire category of dutiable "exempt list" products. This legislative option should first be reviewed by the Subcommittee on Trade, as discussed later in this report. Further, the Subcommittee on Oversight intends to consult with representatives of domestic industry to insure proper implementation of any such recommendation.

d. Legislation should be enacted to allow a specific volume of "exempt list" dutiable goods exported from CBI beneficiary countries to enter the United States market duty-free under a "tariff rate quota" system. Any amount of export above the specified quota amount would continue to be subject to duty.

Such legislation would establish a specific duty-free export level for CBI exports in each category of products, on a country-by-country basis. The tariff rate quota should provide duty-free treatment to exports in an amount at least equal to current CBI export levels. Duty-free export volume levels should also be established for those products not yet produced in the CBI beneficiary countries.

Exports from the CBI beneficiary countries that exceed the specified duty-free volume level would be subject to the MFN rate of duty for the product. The duty-free volume levels should be increased by 3 percent annually until the CBI terminates. The aggregate amount of imports entering the United States under this provision should not exceed 5 percent of world-wide imports into the United States in any of the product categories.

This provision would apply to all "exempt list" products not eligible for duty-free treatment under the CBI. Products exempt from duty-free treatment include textiles and apparel; footwear, handbags, luggage, flat goods, work gloves, and leather apparel; canned tuna; and petroleum products.

The effect of this provision would be to provide some limited duty-free treatment of those products that are currently dutiable under the CBI. Products exempt from duty-free treatment are often those products most efficiently produced in the CBI beneficiary countries, and the fastest growing exports from the CBI to the United States. Both Government officials and business leaders noted that the CBI would be greatly enhanced should a small additional volume of products receive duty-free treatment.

Current levels of dutiable CBI products are a very small portion of worldwide imports entering the U.S. market. For example, in 1985, imports of textile fibers and products to the United States from the CBI beneficiary countries amounted to only $649 million, in comparison to $11.9 billion of worldwide imports. Imports of products in Tariff Schedule 7, which includes footwear, gloves, luggage, handbags and flat goods and other dutiable and nondutiable items, amounted to $275 million in 1985, in comparison to $37 billion of worldwide imports. Providing duty-free treatment to a specific amount of currently dutiable exports would greatly improve trade opportunities for many of the Caribbean Basin countries.

In making this recommendation, the subcommittee does not recommend expanding duty-free treatment to an unlimited volume or amount of dutiable "exempt list" products. This legislative option should first be reviewed by the Subcommittee on Trade, as discussed later in this report. Further, the subcommittee intends to consult with representatives of domestic industry to insure proper implementation of any such recommendation.

e. Legislation should be enacted to provide a separate injury determination for CBI beneficiary countries in countervailing duty and antidumping unfair trade practice cases. A separate injury determination for CBI beneficiary countries also should be considered in import relief cases under section 201.

Currently, in countervailing duty and antidumping cases, the International Trade Commission (ITC) is required to cumulate worldwide imports into the United States in making an "injury" determination. Exports from CBI beneficiary countries are aggregated together with worldwide imports of the product into the United States. The proposed legislation creates a separate cumulation of exports for CBI beneficiary countries, as a group. The proposal would not make CBI beneficiary countries exempt from an injury determination. If it is found by the ITC that the CBI beneficiary countries engaged in unfair trade practices and "injured" U.S. producers, all current law rules and sanctions would apply.

Consideration also should be given to allowing a separate injury determination for CBI beneficiary countries, as a group, when determining whether to grant the domestic industry import relief under section 201. Currently, import relief is available to domestic industry, through tariff increases or other means, where a determination has been made by the ITC that increased imports are the substantial cause of serious injury or threat to the domestic industry. Such a provision should not apply to, nor affect the present law protections and emergency relief provisions applicable to perishable agricultural products.

The proposed legislation is in recognition of the fact that, in most product categories, imports to the United States from CBI beneficiary countries are as little as 2–3 percent. Therefore, it is unlikely that any CBI beneficiary country or group of CBI beneficiary countries export a product to the United States in quantities sufficient to injure domestic industries. One of the major problems facing Caribbean Basin countries, in fact, is development of products in marketable economies of scale.

The subcommittee notes that concerns have been raised about the administrative and policy implications of such a proposal, including the U.S. Government's nondiscriminatory treatment obligations under section I of the GATT. Further, the Trade and International Economic Policy Reform Act of 1987, as reported by the Committee on Ways and Means, provides a "negligible" test for purposes of determining injury in countervailing duty and antidumping cases. (The provision does not apply to section 201 cases.) It is unclear whether the "negligible" test will substantially benefit CBI countries, or be helpful in future cases similar to the countervailing duty and antidumping cases brought against the Government of Costa Rica and the Costa Rican cut flower producers.

f. Legislation should be enacted to increase the duty-free allowance for U.S. citizens returning from a CBI beneficiary country or U.S. territories by $200. Such legislation would increase the duty-free allowance for persons returning to the United States from an eligible CBI country from $400 to $600, and increase the duty-free allowance for persons returning from U.S. territories from $800 to $1,000. Several Caribbean Basin country representatives reported that increasing the duty-free allowance would help their tourist industry and provide an incentive for the purchase of goods in the region.

g. Legislation should be enacted to provide certain countries, collectively referred to as the Eastern Caribbean States (Antigua and Barbuda, Aruba, British Virgin Islands, Dominica, Grenada, Montserrat, Netherlands-Antilles, St. Christopher-Nevis, St. Lucia, and St. Vincent and the Grenadines) with a special "rule-of-origin." The special rule-of-origin would allow products from the Eastern Caribbean States to enter the United States duty-free if (*a*) 25 percent of the value of the product is U.S. components, and 10 percent is value-added in the Eastern Caribbean States; and, (*b*) the product is substantially transformed in the Eastern Caribbean States.

Current rule-of-origin requirements provide that, for duty-free treatment, at least 35 percent of the value of the product must be added by the CBI beneficiary country. Alternatively, if 15 percent or more of the product is made from U.S. components, then only 20 percent of the value must be added by the CBI beneficiary country.

Both rules also require that the product be substantially transformed in the Caribbean.

The proposal would provide a special rule-of-origin provision for the duty-free entry of products made with at least 25 percent U.S. components. The effect of this provision would allow duty-free treatment where less Caribbean content is added (10 percent of the value of the product is added in the Eastern Caribbean States, rather than 20 percent) but more of the product is made from U.S. components (25 percent of the value of the product is U.S. components, rather than 15 percent).

The special rule-of-origin requirement would apply to Turks and Caico Islands, Cayman Islands and Anquilla should the President designate these countries as beneficiaries of the CBI.

The "substantial transformation" requirement under the current country-of-origin rules would remain unchanged under the proposed legislation. Consequently, the provision would not encourage the establishment of passthrough operations in the Eastern Caribbean States. Further, the proposal would not change or conflict with the current law governing the export of ethanol from CBI beneficiary countries. The Tax Reform Act of 1986 clarified that ethanol, which is dehydrated and not fully fermented in a CBI beneficiary country, does not meet the substantial transformation requirement. The Act also established standards under which ethanol may be considered an indigenous product under the CBI and, therefore, exported duty-free to the United States.

2. SUBCOMMITTEE HEARINGS

a. The Subcommittee on Trade should conduct hearings to reexamine the U.S. trade policy underlying the exemption of certain items from duty-free treatment under the CBI. TSUS articles which are dutiable under the CBI or on the "exempt list" include: textiles, footwear, work gloves, luggage, handbags, leather wearing apparel, certain watches and watch parts (including bracelets, cases and straps), and canned tuna.

In reviewing the "exempt list," the Subcommittee on Trade should: (1) review the impact of dutiable exports from the Caribbean region on U.S. domestic industries; (2) determine which exports from the region pose no threat of injury to U.S. domestic industries; and (3) introduce legislation amending the CBI to eliminate duties on such exports. The International Trade Commission (ITC) should be required to report to the Committee on Ways and Means, as expeditiously as possible, an analysis of the economic effects of eliminating product exemptions under the CBI.

b. The Subcommittee on Trade should determine whether the tax treatment afforded to certain U.S.-owned ethanol producers in the Caribbean region should also be afforded to state-owned facilities in Costa Rica and Jamaica. Government officials in both countries urge reconsideration of their request to grandfather their government-owned ethanol dehydration facilities (Petrojam in Jamaica and Punta Morales in Costa Rica) under the provision contained in the Tax Reform Act of 1986 that applies to two U.S.-owned companies (Tropicana, Ltd., and Allied Ethanol).

c. The Subcommittee on Trade should hold hearings to determine whether the U.S. Customs Service handling and tariff treatment of CBI exports is consistent at each port of entry. The Subcommittee on Oversight has received reports from Caribbean Basin exporters that Customs officials apply different standards for the entry of products from CBI beneficiary countries at the various ports of entry. Exporters further noted that Customs officials in some instances are unaware of the duty-free treatment afforded to goods entering under the CBI.

d. The Subcommittee on Oversight should hold hearings at the end of 1988 to provide review of loans made by the Government of Puerto Rico with Qualified Possession Source Investment Income (QPSII) funds in qualified Caribbean Basin countries. In addition, the Government of Puerto Rico should report to the Committee on Ways and Means the results of its commitment to provide $100 million to qualified CBI countries.

The Tax Reform Act of 1986 expands section 936 of the Internal Revenue Code and allows the Government of Puerto Rico, through its Government Development Bank, to lend QPSII funds for active trade or business to investments in CBI beneficiary countries that have signed a Tax Information Exchange Agreement (TIEA). In a memorandum of agreement, dated November 14, 1985, the Government of Puerto Rico agreed to provide annually $100 million of QPSII funds for "twin plants" projects and other CBI investments. The funds became available on January 1, 1987.

After almost 2 years of operation, the subcommittee should review use of QPSII funds by the Government of Puerto Rico in financing investments in qualified CBI beneficiary countries and its impact on economic development in the region.

To assist the Subcommittee on Oversight in its review, the Government of Puerto Rico should report to the subcommittee the results of its good faith effort to meet its commitment to provide $100 million in the form of loans to qualified CBI beneficiary countries. This report should be submitted to the Committee on Ways and Means by July 1, 1988.

Further, the Government of Puerto Rico should seriously consider making QPSII funds available for infrastructure development projects such as the construction of roads, telecommunications systems, water and sewage treatment facilities, energy needs and port facilities. Government representatives of CBI countries emphasized that infrastructure development would enhance investment opportunities for "twin plant" investments and other industrial development projects.

The Government of Puerto Rico also should carefully consider expanding the use of section 936 funds to assist in the development of tourism. Government representatives and investors in the Caribbean Basin region emphasized that tourism is often the most viable economic activity for a CBI beneficiary country. This is particularly true among the East Caribbean States such as Grenada and St. Lucia, both of which have recently initialed TIEA's. Nothing in section 936 precludes Puerto Rico from using QPSII funds for infrastructure development or tourism.

C. Recommendations to Administrative Agencies

1. U.S. TRADE REPRESENTATIVE

a. The Office of the U.S. Trade Representative should examine the trade benefits provided to CBI beneficiary countries by trading partners other than the United States. Specifically, the USTR should review operation of the Lome Convention and the CARIBCAN agreement to determine how to better provide consistent and expanded trade benefits to the Caribbean Basin countries. The Lome Convention provides duty-free treatment for exports from the Caribbean region to the European Economic Community (EEC). Similarly, the CARIBCAN agreement provides duty-free treatment for exports from Caribbean countries to Canada. The Office of the USTR should examine ways in which the benefits can be made consistent among the three one-way duty-free systems. In addition, the USTR should explore developing a price stablization program over a period of years, similar to that provided by the EEC for commodities from the Caribbean that enter the EEC markets. The USTR should report its findings and recommendations to the Committee on Ways and Means.

b. The Office of the U.S. Trade Representative (in conjunction with the Department of State) should establish and develop permanent consultative groups to discuss ways to improve the CBI. Regional organizations such as the Caribbean Common Market (CARICOM), the Central American Common Market (CACM), the Caribbean Development Bank, and other nongovernmental organizations should be included. In addition, Caribbean Basin country organizations such as export and investment promotion groups, international chambers of commerce, industry and manufacturing associations, and academic institutions in the region would be appropriate for participation in a dialog with U.S. Government representatives involved in the implementation of the CBI.

2. THE DEPARTMENT OF COMMERCE

The Department of Commerce should organize a trade show in various Caribbean Basin countries to bring U.S. textile producers to the region. Such a trade show was specifically requested by the Jamaican business community of the Kingston Free Trade Zone. Businessmen in the region expressed particular interest in engaging in production sharing operations with U.S. investors to take advantage of the guaranteed access levels for U.S. cut and manufactured fabrics stitched into garments in the Caribbean Basin countries.

3. OTHER U.S. GOVERNMENT AGENCIES

The Office of the U.S. Trade Representative, the U.S. Customs Service, the Department of Agriculture, Food and Drug Administration, Environmental Protection Agency, and Overseas Private Investment Corporation should appoint a specific "contact" person responsible for CBI matters. Such representatives should report to the Office of the USTR.

The "contact" person should have the responsibility to: (1) upon request, provide a status report on any decision being made by that agency on a CBI-related matter; (2) at the official request of the Secretary or Chief Administrator of that agency, direct the appropriate person or bureau within that agency to expedite the determination, decision, or approval being made by that agency regarding the export of a product(s) from a CBI beneficiary country; and, (3) provide assistance to Government officials or investors in the Caribbean Basin country in determining what U.S. Federal standards within the jurisdiction of that agency must be met to insure that export of the product(s) from the CBI beneficiary country is eligible for entry into the U.S. market.

D. Recommendations Within the Jurisdiction of the Committee on Foreign Affairs

1. LEGISLATION AND ADMINISTRATIVE ISSUES

The Subcommittee on Oversight requests that the Committee on Foreign Affairs review the following proposals for foreign assistance through U.S. AID and the Overseas Private Investment Corporation (OPIC) to the Caribbean region:

a. Steps should be taken to continue high-level U.S. AID support for balance of payments in CBI countries. Sugar quotas in 1987 have been reduced by over 45 percent in many CBI countries, and prices and demand for traditional commodities such as bauxite and sugar have declined dramatically over the past 3 years since the enactment of the CBI. Consequently, most CBI countries have experienced drastic reductions in foreign exchange earnings. In our discussions with Government officials in Jamaica, Costa Rica, Haiti, and the Eastern Caribbean States, continuing current levels of economic support funds (ESF) is a critical need for these governments as they attempt to adjust to the impact on their balance-of-payments on declining foreign exchange earnings from traditional exports.

b. Steps should be taken to provide more assistance to the Dominican Republic through U.S. AID in the form of economic support funds. Balance of payment support is needed since the drastic reduction in sugar quotas and fiscal year 1987 U.S. AID cuts come at a time when a new government has assumed power. Economic instability could cause a lack of confidence in the new government. Increased ESF assistance would help the government's currency stabilization program, which is an important aspect of economic stability and would also help their balance-of-payments picture.

c. The current level of U.S. AID grants to Grenada and other Eastern Caribbean States should be continued for at least 3 more years. Prime Minister Blaize of Grenada stated that funding over the next 3 years is crucial to the successful operation of the CBI in Grenada and in neighboring Eastern Caribbean States.

d. Steps should be taken to provide more assistance for the infrastructure development, particularly in the Eastern Caribbean States, Haiti, and in the Central American countries including Belize. Infrastructure development such as the building of roads, port facilities and telecommunication systems is essential to creating an environment that will attract new investment and allow new industries to flourish.

e. Steps should be taken to provide U.S. AID funding for industry and agricultural training programs in the Eastern Caribbean States. Regional institutions such as the Caribbean Association for Industry and Commerce or other regional organizations are often best equipped to provide mid-level management training to workers.

Manufacturing industries have declined in the Eastern Caribbean over the past several years. At the same time, agricultural production of nontraditional exports has begun to play a role in the diversification of the economies of the Eastern Caribbean States. A skilled and knowledgeable labor force may attract new investment to build both the manufacturing and agricultural sectors.

f. Steps should be taken to provide more reforestation aid to Haiti. The reforestation project in Haiti is crucial to the development of agricultural crops for export. The Government of Haiti has requested additional aid for reforestation. Current efforts to replant deforested areas have not been completely successful. More cooperation on the part of the Haitian Government to educate the Haitian population of the consequences of deforestation could greatly assist U.S. AID in its project to replant trees. Therefore, the Committee on Foreign Affairs may wish to tie any authorization of additional aid for reforestation to increased cooperation by the Haitian Government with U.S. AID on promoting among the Haitian population the importance of the reforestation project.

g. Steps should be taken to provide additional U.S. AID marketing assistance to all CBI beneficiary countries. During the delegation's visit to the Caribbean Basin region, business leaders and investors in the region continually mentioned the difficulties they faced as small producers in marketing their products to the United States. In each country, private sector participants requested assistance in identifying suitable markets in the United States for their products.

h. Steps should be taken to provide assistance to promote tourism and travel in the Caribbean Basin region. With the decline in foreign exchange earnings from traditional commodities, tourism is rapidly becoming a major earner of foreign exchange in many of the CBI beneficiary countries. U.S. AID-funded activities could play an important role in promoting tourism. In fact, more assistance in this area should be encouraged. The importance of the tourism and travel industries cannot be overlooked. The tourism industry provides, or has the potential to provide, important contributions to the overall health of the economies of the countries in the Caribbean Basin region. It provides jobs, training, hard currency, and investment opportunity, as well as promotes the development and improvement of many different components of the infrastructure in the CBI beneficiary countries.

i. Steps should be taken to provide more short-term, medium-term, long-term financing, and political risk insurance to CBI in-

vestments. This should be done through the Overseas Private Investment Corporation and U.S. AID funding. The Overseas Private Investment Corporation (OPIC) offers political risk insurance as its primary function. OPIC also offers financing through its direct loan program. These direct loan funds are authorized each year from OPIC's internal resources. See, Appendix A, CRS Report, p. 24. Resources authorized from the direct loan program were increased from a $15 million limit a year worldwide in 1985 to $23 million a year limit in 1986. An authorization at the current $23 million level would enable OPIC to increase its direct loans for investments, particularly in the Caribbean Basin region. Similar increases should be considered for the financing of U.S. AID-funded projects in the region.

j. Steps should be taken to provide some U.S. AID funding for CBI investments. This should be done directly through private enterprise as well as through regional organizations.

k. Steps should be taken to review the availability of Government procurement contracts to businesses in CBI beneficiary countries. Such a review might be conducted jointly with the Committee on Government Operations.

The Department of Commerce has indicated, in its investment promotion activities, that U.S. Government procurement contracts are available to investors in the CBI countries. However, investors in the Caribbean Basin region are uncertain of the circumstances under which U.S. Government procurement contracts are available to businesses outside of the United States. The committee(s) should also look into the possibility of allowing small businesses, particularly minority businesses that are awarded Government procurement contracts, to enter into joint ventures and/or production sharing operations with investors in the Caribbean Basin region. In the case of the CBI beneficiary countries, U.S. small businesses may provide the best linkages for investors in the Caribbean Basin region who may wish to take advantage of U.S. Government procurement contracts through joint ventures with U.S. businesses.

E. Recommendation Within the Jurisdiction of Committee on Agriculture

The Committee on Agriculture should conduct a hearing to provide an overall review of the U.S. sugar program. The Committee on Agriculture should consider, as part of its review of the U.S. sugar program, whether additional programs similar to the section 416 program could be instituted to further compensate or assist Caribbean Basin countries, as they adjust to drastic reductions in their U.S. sugar quotas. One proposal offered by representatives for the region would create a sugar reexport program. The program would provide U.S. refiners with an incentive to purchase CBI raw sugar at levels above the world price, process the sugar in their U.S. facilities, and reexport the CBI refined sugar into the world market. Such a program would compensate U.S. refiners for their sale of CBI refined sugar on the world market at a price lower than the U.S. market price. Similar existing export enhancement programs are conducted by the Department of Agriculture for other exported commodities. The Subcommittee on Oversight recognizes that measures to assist sugar producers in the Caribbean Basin countries should not jeopardize the U.S. sugar price support program.

The Committee on Agriculture also should examine the criteria under which products containing sugar are selected to be included in the sugar product quotas. Government officials in Jamaica raised concerns that certain exports containing low quantities of sugar are included in the sugar product quota for Jamaica. They cited, as an example, the product Milo, a chocolate-based powder which is exported to the U.S. market and primarily purchased by the West-Indian population in the United States.

F. Separate Views

1. SEPARATE VIEWS OF THE HONORABLE DICK SCHULZE

I respectfully dissent from several recommendations in the Oversight Subcommittee report on the CBI.

I was an early, strong supporter of the CBI program, and I continue to be a strong supporter. Accordingly, I feel somewhat awkward in dissenting to a report which is excellent and with which I am largely in agreement. However, several recommendations make me uncomfortable and therefore I must express my reservations.

The CBI program seeks to help our Caribbean neighbors diversify their economies by giving them trade incentives to increase their nontraditional exports to the United States. The "incentives" involve a careful balance between encouraging Caribbean exports and the potential impact on U.S. industries. Another concern involves how our Caribbean incentives impact on our worldwide trade policy and what type of precedent it sets for other countries.

Several of the Report's recommendations trouble me because they may go beyond the careful balance involved in providing CBI incentives. For example, the recommendations for a "tariff-rate quota" system and a separate injury determination for the CBI countries in contervailing duty and antidumping cases are questionable. A tariff-rate quota system may increase the impact of CBI exports on U.S. industries. A separate injury determination for CBI countries may set a precedent whereby other countries or regions might seek similar treatment.

I am confident that the Trade Subcommittee will explore fully the possible ramifications of all the Report's recommendations. I look forward to participating in that debate in order to assure that any changes in the CBI rules are responsible and constructive.

2. SEPARATE VIEWS SUBMITTED BY THE HONORABLE WILLIAM M. THOMAS

Having taken part in the Oversight Subcommittee's review of the effectiveness of the Caribbean Basin Initiative, I agree that Congress should continue examining ways of improving this program. I have, however, strong doubts about the recommendation that the impact of imports from CBI nations should be assessed separately in unfair trade and import relief cases.

If a separate determination blocks application of countervailing or antidumping duties to CBI exports, the recommendation could become a license to engage in unfair trade. Mature industries, such as agricultural industries, could be encouraged to relocate to use unfair competitive advantages. To the extent U.S. industries are found to be injured by other unfair imports, a separate determination could be used to perpetuate injurious practices until CBI exports themselves are finally determined to be a separate source of injury. That prospect is unfair and costly to U.S. industries that would be forced to pursue separate petitions to combat CBI practices.

The recommendation also ignores important trade considerations. First, legislation implementing the recommendation may be challenged within the General Agreement on Tariffs and Trade as a violation of U.S. trade obligations. At a time when the United States is striving to strengthen the international trading system through negotiations, clearly this sends the wrong signal to other nations. More important, it could lead to retaliation against U.S. industries.

As important as GATT considerations may be, they cannot be allowed to overshadow the practical effect of such a decision. The United States grants preferential treatment to other nations as well. By granting special treatment to CBI nations, we encourage other countries to demand the same treatment in order to maintain the value of benefits they receive from other programs. It may be very difficult for Congress to hold the line once an exception is created.

I fully agree the United States should offer development assistance to our Caribbean neighbors but I doubt the wisdom of doing so at the expense of altering U.S. laws against unfair trade practices and U.S. import relief procedures. I hope the recommendation would not become the subject of legislative proposals unless the Trade Subcommittee gives it an extremely thorough examination.

V. APPENDICES

Appendix A   Caribbean Basin Initiative: General Background Information, and Activities in Barbados, Costa Rica, Dominican Republic, Haiti, and Jamaica, Congressional Research Service, Library of Congress.

Appendix B   Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, U.S. International Trade Commission, September 1986.

- Executive Summary
- Tables 1-7 Trade Statistics on the CBI countries and major U.S. Trading Partners for dutiable goods under the CBI.

Appendix C   Trade and Employment Effects of the Caribbean Basin Economic Recovery Act, U.S. Department of Labor, August 1986.

- Executive Summary
- Summary and Conclusions

Appendix D   Committee Correspondence and Press Release

- Letter to Honorable J. J. Pickle, Chairman, Subcommittee on Oversight, Committee on Ways and Means, from Honorable Sam Gibbons, Chairman, Subcommittee on Trade, House Committee on Ways and Means, September 12, 1986.
- Letter to Honorable Dan Rostenkowski, Chairman, Committee on Ways and Means, from Honorable J. J. Pickle, January 29, 1987.

- Press Release No.1, 100th Congress, Subcommittee on Oversight, Committee on Ways and Means. The Honorable J. J. Pickle, Chairman, announces "Plans for a Congressional Oversight Delegation to the Caribbean Region."

Appendix E — Caribbean Basin Initiative: Legislative and Agency Actions Relating to the CBI, U.S. General Accounting Office, December 1986.

Appendix F — Calculated Duties in 1982-1986 for U.S. Imports from the CBI countries, U.S. Department of Commerce.

Appendix G — Materials Submitted to the Subcommittee on Oversight as supporting documents to the Delegation Review on the Impact and Effectiveness of the Caribbean Basin Initiative. (These documents are retained in the Subcommittee file).

1. Discussion Brief on Impact of the Recent U.S. Sugar Quota Reduction on St. Christopher and Nevis, January 16, 1987. (Submitted by His Excellency Kennedy Simmonds, Prime Minister, St. Christopher and Nevis.)
2. Address by the Rt. Honorable Hugh L. Shearer, Deputy Prime Minister and Minister of Foreign Affairs, Trade and Industry, at the dinner hosted by Ambassador Michael Sotirhos and Mrs. Sotirhos in honor of the Delegation at the Rosehall Great House, Montego Bay, January 11, 1987.
3. Summary of Costa Rican Government concerns regarding the CBI, January 13, 1987. (Submitted by Honorable Muni Figueres, Minister, Foreign Trade, Costa Rica.)
4. The Role of Sugar in the Dominican Economy, Janaury 20, 1987. (Submitted by Honorable Carlos Morales Troncoso, Vice-President, Dominican Republic.)
5. "Proposal for Amendment to Caribbean Basin Initiative", November 11, 1986. (Prepared by Louis E. Emery and Bruce Zagaris, Berlinger and Maloney, and submitted on behalf of the Government of Belize.)

6. The Role of Puerto Rico within the Caribbean Basin Initiative, December, 1985. (A report by the Commonwealth of Puerto Rico Economic Development Administration Caribbean Basin Initiative Task Force.)

7. "Briefing Materials on Narcotics Abuse and Control for CODEL Pickle to Costa Rica, Dominican Republic, Jamaica, Barbados and St. Lucia", January 1986. (Prepared by the Select Committee on Narcotics Abuse and Control.)

8. Annual Report on the Impact of the Caribbean Basin Economic Recovery Act in U.S. Industries and Consumers, First report 1984-85, September 1986, (Prepared by United States International Trade Commission.)

9. Trade and Employment Effects of the Caribbean Basin Economic Recovery Act, August 1986, (Prepared by the U.S. Department of Labor.)

10. Paper prepared for discussion on the Caribbean Basin Initiative, Barbados, January 16, 1987. (Prepared by Frank L. Walcott, General Secretary, the Barbados Workers' Union.)

11. Presentation of the Barbados Perspective of the Caribbean Basin Initiative, Barbados, January 15, 1987. (Submitted by Allan C. Fields, President, Barbados Manufacturers Association.)

12. United States Sugar Quotas and the Caribbean Basin Initiative, May 1986. (Prepared by ICF Inc., prepared for the Caribbean Basin Initiative Sugar Group.)

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14. "The Chicago Association of Commerce and Industry's Caribbean Basin Promotion Center: Making the CBI Work", October, 1986. (Submitted by Benchmarks, Inc.)

15. Letter to Honorable J. J. Pickle, Chairman, Subcommittee on Oversight, Committee on Ways and Means, from Samuel Giberga, President, Olympic Fibers, S.A., Costa Rica, January 22, 1987.

16. Letter to Honorable J. J. Pickle, Chairman, Subcommittee on Oversight, Committee on Ways and Means, from Frank Samolis, Patton, Boggs and Blow, December 22, 1986. (Prepared on behalf of Olympic Fibers, S.A.)

17. Letter to Honorable J. J. Pickle, Chairman, Subcommittee on Oversight, Committee on Ways and Means, from Milton M. Bush, Director of Washington Operations, Sporting Goods Manufacturers Association, January 29, 1987.

18. "CBI Overview", January 15, 1987 by Fred H. Else, Managing Director, Building Supplies, Ltd., Barbados.

19. "Caribbean Basin Initiative Problems and Recommendations" January 15, 1987. (Submitted by Phillip C. Goddard, Director, Goddard Enterprises Limited, Barbados.)

20. Cruise Passenger Arrivals in the Caribbean and Estimates of Visitor Expenditures (Source: Caribbean Tourism Statistical Report, 1986. Caribbean Tourism Research and Development Centre, Barbados.); Background material on Cruise Ship port at Labadee, Haiti.

21. Letter to Honorable J. J. Pickle, Chairman, Subcommittee on Oversight, Committee on Ways and Means, from Richard A. Smith, Heron, Burchette, Ruckert and Rothwell, March 19, 1987. (A proposal for a special sugar export program and reallocation of sugar quotas.)

22. "The Electoral Process in Haiti: A Path to full Democracy", National Democratic Institute for International Affairs, February 1987. (Analysis of the current situation in Haiti with respect to the electoral process.)

APPENDIX A

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**Prepared at the request of the Subcommittee on
Oversight of the Committee on Ways and Means**

CARIBBEAN BASIN INITIATIVE: GENERAL BACKGROUND INFORMATION, AND ACTIVITIES IN BARBADOS, COSTA RICA, DOMINICAN REPUBLIC, HAITI, AND JAMAICA

The report provides, in its first part, general background information on the Caribbean Basin tariff preference and its interrelationship with various relevant U.S. laws and international compacts and, in the context of several general topics, greater detail on certain specific aspects related to them. The latter include: general product coverage of various generalized-system-of-preference programs; and effect of U.S. obligations under the General Agreement on Tariffs and Trade on reallocation of sugar import quotas and on the applicability of the injury test in countervailing actions. The second part addresses the balance-of-payments situation of the five Caribbean countries on which the report focuses and the mechanisms and means to provide them with balance-of-payments and developmental assistance.

Coordinated by
Vladimir N. Pregelj
Specialist in International
Trade and Finance
Economics Division

Congressional Research Service
February 18, 1987
Updated April 8, 1987

CARIBBEAN BASIN INITIATIVE: GENERAL BACKGROUND INFORMATION, AND ACTIVITIES IN BARBADOS, COSTA RICA, DOMINICAN REPUBLIC, HAITI, AND JAMAICA

GENERAL INFORMATION, AND A FEW SPECIFICS

The Caribbean Basin Initiative, proposed by President Reagan in February 1982 as a vehicle for economic improvement and political stabilization of Caribbean countries, consists of several trade, aid, and fiscal programs, the centerpiece of which is the Caribbean Basin tariff preference (CBP), enacted by Subtitle A of the Caribbean Basin Economic Recovery Act (CBERA) (Title II, P.L. 98-67, August 5, 1983) and implemented by Proclamation 5133 effective on January 1, 1984. The CBP provides, under specified conditions, for duty-free importation into the United States of most otherwise dutiable products originating in Caribbean countries.

The Caribbean preference operates within a complex of other trade laws and international agreements, by which it is to some extent affected or complemented. The interaction of the CBP with these laws and agreements is summarized in this part.

General Agreement on Tariffs and Trade (GATT) *

GATT and the Caribbean Basin Preference

As a signatory of the General Agreement on Tariffs and Trade, the United States is bound by one of the basic requirements of that compact, namely, by the obligation, contained in Article I of the GATT, to apply any tariff concession or benefit granted to one country to all GATT signatories; that is, all GATT members must be treated in this respect in a nondiscriminatory manner (the most-favored-nation clause). Hence, the duty-free treatment accorded to the beneficiary countries of the CBP would, under the GATT Article I, have had to be extended to all GATT members. This would have vitiated the purpose of the Caribbean preference as well as stimulated imports from any U.S. trading partner -- neither of which was the intent of the CBP or in the interest of the United States. The United States, therefore, requested and obtained from the GATT Contracting Parties a waiver of its obligation under Article I in order to be able to apply the Caribbean preference only to countries for whose benefit it is intended.

* Prepared by Vladimir N. Pregelj.

A country's GATT membership or lack of it does not affect its eligibility for or beneficiary participation in the Caribbean Basin tariff preference. In fact, six of the independent eligible Caribbean Basin countries (Anguilla, Costa Rica, El Salvador, Guatemala, Honduras, and Panama) are not GATT members.

GATT and Reallocation of U.S. Sugar Import Quotas

U.S. membership in the GATT does, however, place certain limitations on the United States' ability to reallocate sugar import quotas among other GATT signatories. Article XIII of the General Agreement prohibits discriminatory application of import quotas with respect to any product. Section 2 of the Article specifically requires that, in the allocation of import quotas of a product among the exporting countries, the import-restricting country "shall aim at a distribution of trade in such product approaching as closely as possible the shares which the various contracting parties [i.e.. GATT signatories] might be expected to obtain in the absence of such restrictions."

When the United States, in 1983, reduced Nicaragua's sugar import quota from what, within the FY1984 global quota, would have amounted to 64,050 short tons to a fixed annual quota of 6,000 tons and reallocated the remainder to Costa Rica, El Salvador, and Honduras (see p. 17), Nicaragua filed a complaint with the GATT. The ensuing examination of the complaint by a GATT panel resulted in a report in which the United States' action was unanimously found inconsistent with the U.S. obligations under Article XIII:2. The panel's report was adopted by the GATT Council of Representatives on March 13, 1984.

Generalized System of Preferences (GSP) *

GSP and the GATT

The generalized system of preferences is a program under which industrialized countries accord preferential tariff treatment to imports from developing countries. Like the U.S. Caribbean Basin preference, the GSP needed, for any GATT member that wished to grant such a preference, a waiver by the GATT from the obligation incurred under Article I of that Agreement. This was granted in June 1971 as a temporary measure. The waiver, approved for a 10-year period, also stressed that the preferences are temporary and nonbinding (i.e., do not constitute an obligation under the GATT), but also "generalized" and "non-discriminatory."

A more permanent GATT basis for the GSP than the 1971 waiver was provided by the Contracting Parties' decision of November 28, 1979, referred to as the "enabling clause." The enabling clause sets no limit on the duration of the waiver, and affects a broader range of policy measures. Otherwise, the GATT places no specific restrictions or conditions on a member-country's providing GSP treatment to its de-

* Prepared by Vladimir N. Pregelj.

veloping trading partners. In view of the fact, however, that the preferential treatment is to be "generalized" and "non-discriminatory" (that is, applied as broadly and equally as possible as to both beneficiary countries and product coverage), excessively stringent limits on either aspect could possibly result in the inapplicability of the enabling clause under the GATT and a consequent reinstatement of the obligation to apply all concessions, including those granted under the GSP, on a most-favored-nation basis. Within these considerations, any GSP-granting country is free to implement the program in accordance with its own pertinent laws.

General Product Coverage of the GSP

Although the list of products eligible for the GSP varies among the preference-granting countries, the product eligibility coverage follows, in general, the outlines of the agreement on this subject reached initially by the preference-grantors; namely, that preferences should be available for all semimanufactured and manufactured goods, but that a limited number of import sensitive products could be excepted. Industrial raw materials, and agricultural products could be included in the preference more selectively. Generally speaking, products of the industrial sector are covered fairly completely, while coverage of raw materials and agricultural products is less extensive.

Data included in a survey of the GSPs of the member-countries of the Organization for Economic Cooperation and Development (The Generalised System of Preferences: Review of the First Decade, 1983), show, for all OECD GSP-granting members, the shares of tariff lines (i.e., product classifications according to each country's tariff system) that are covered by GSP preferential status or are duty-free under regular (MFN) rates. These shares averaged 56.4 percent for the products of the agricultural sector (ranging from 56.3 percent for vegetable products to 64.9 percent for animal and vegetable fats and oils), and 90.3 percent for industrial products (including raw materials) (ranging from 70.8 percent for textiles and textile articles to 99.4 percent for works of art, antiques, and similar articles).

U.S. Generalized System of Preferences and the CBP

The generalized system of preferences was enacted by the United States by Title V of the Trade Act of 1974 and implemented effective January 1, 1976. The U.S. GSP has many similarities with the GSPs of other major industrialized countries; there are, however, minor differences among these programs as to countries and products covered by the preference, conditions for country eligibility, and rules of origin for eligible imports. One significant difference is in the fact that the U.S. preferential duty-rate is set at zero for all eligible articles (they are duty free), while most other GSP grantors also use positive rates that are lower than general concessional (MFN) rates. In many respects, the benefits of the U.S. GSP are identical with or similar to those provided eight years later by the CBP. Yet, on the whole, the Caribbean Basin preference is significantly more advantageous. The principal features of the two programs and the differences, if any, between them are:

Country eligibility. Since the generalized system of preferences is, in principle, of worldwide scope, the U.S. GSP law -- rather than listing by name the developing countries that have basic eligibility for the benefits of the GSP -- enumerates only those, presumably developed, countries that are ineligible. The CBERA, on the other hand, contains a specific list of 27 independent countries and dependencies to which the basic eligibility for that program is limited. In addition, under either preferential program, a country must also be designated as its beneficiary. Such designation is contingent in either case on several similar -- but in some cases not identical -- statutory conditions and limitations, some of which may in the national economic (and, in the case of CBI, also national security) interest be waived by the President.

Thus, the U.S. GSP applies, at present, to 113 independent countries, 27 dependent entities, and 3 associations of developing countries which have been designated as GSP beneficiary developing countries (BDCs); the Caribbean preference, on the other hand, with its narrower, regional scope applies to only 22 Caribbean countries, with 6 more countries eligible for the program but not designated as its beneficiaries. 1/ All CBP beneficiaries are also BDCs of the GSP.

In a recent action (Proclamation 5617 of March 8, 1987), the President revoked the GSP BDC designation of three countries (among them CBI-eligible but undesignated beneficiary country, Nicaragua) because of their noncompliance with the GSP requirement of affording internationally recognized workers' rights to its workers, added by the Trade and Tariff Act of 1984.

Product eligibility. Although the range of products eligible for duty-free treatment under the CBP and that under the GSP overlap substantially, the former is more extensive. Both the CBERA and the GSP law list as ineligible: textiles and apparel subject to textile agreements, and footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel. (CBP, however, allows duty-free status for many textile products if their cotton, wool, or man-made fiber contents do not exceed certain value or weight limits.) Watches, ineligible under the GSP, are duty-free under the CBP if they do not contain any materials originating in non-MFN countries (most Communist countries). Canned tuna, and petroleum and its products, ineligible under the CBP by law, are ineligible under the GSP by Presidential determination. In any event, petroleum is an important -- if overwhelmingly so -- product for only three Caribbean countries (Bahamas, Netherlands Antilles, and Trinidad and Tobago) but its duty rates are minimal (equivalent to a fraction of 1 percent ad valorem). The GSP

1/ The present total of 28 (rather than 27) designated and undesignated CBP beneficiaries is the result of Aruba's (formerly part of the Netherlands Antilles) becoming an independent country with its own designation as a beneficiary as of January 1, 1986.

law also excludes from eligibility import-sensitive electronic, steel, and semimanufactured and manufactured glass products, and any other articles which the President determines as import sensitive in the GSP context.

A special eligibility regime applies under the CBERA to beef and veal (in part eligible under the GSP), and to sugar, syrups, and molasses (mostly eligible under the GSP, but generally subject to import quotas) (see section on U.S. Sugar Quotas and the CBI on p. 14). Imports of products in either commodity group from any beneficiary country are eligible for the preference only if the country has submitted a "stable food production plan," designed to insure that the present level of food production and nutritional levels in the country will not be adversely affected by changes in land use and ownership possibly resulting from an increase in beef or sugar production for export under the CBP. Imports of beef and sugar products of five Caribbean Basin countries (Antigua and Barbuda, Montserrat, Netherlands Antilles, Saint Lucia, and Saint Vincent and the Grenadines) have been denied preferential status under this provision.

Title VIII of the Trade Act of 1974 (Tariff Treatment of Products of Uncooperative Major Drug Producing or Drug-Transit Countries), recently added by section 9001 of the Anti-Drug Abuse Act of 1986 (P.L. 99-570), denies preferential treatment under both programs to imports of any or all products of a country that does not cooperate fully with the United States in preventing shipments or sales of controlled drugs to the United States or sales to U.S. Government personnel in that country. This provision constitutes a detailed and somewhat expanded restatement of an earlier condition, which was waivable by the President under the GSP but not waivable under the CBERA. The new provision can, in effect, act as bar to a country's overall eligibility if it is applied to all products. Possibly due to its recency, the provision has not yet been used.

The practical effect of the difference between the eligibility of products under either program is illustrated by a recent analysis of imports from CBERA countries, which indicates that imports of products eligible for duty-free status (but not necessarily utilizing it) under the CBP and GSP amounted to (in millions of dollars): 1983 - GSP: 1,007, CBP: 1,397; 1984 - GSP: 1,173, CBP: 1,635; 1985 - GSP: 1,079, CBP: 1,560. During these 3 years, the value of CBP-eligible imports has substantially exceeded that of GSP-eligible imports, and the margin of excess has increased from 39 to 45 percent.

Rules of origin. Under the Caribbean preference, the rules of origin qualifying an import as a product of a beneficiary country and, thus, potentially eligible for duty-free status, are more liberal than under the GSP. Under both preferences, the import must either be a product grown or manufactured entirely in the exporting beneficiary country or, if containing materials originating in other countries, have undergone "substantial transformation" in the beneficiary country to be considered its product. Substantial transformation of a product or of its various components is one that results in a "new and different article of commerce."

In addition, under both preferences, the rules of origin also require that at least 35 percent of the value of the import must be of beneficiary-country origin. However, under the GSP, this value must have originated either all in one country or, if in more than one country, in countries that are members of the same association of countries that has been designated as a GSP BDC (Andean Group; Association of South East Asian Nations - ASEAN; and Caribbean Common Market-CARICOM). Under the CBP, on the other hand, the 35-percent minimum may be cumulated from values originating in any CBERA beneficiary country (which for this purpose includes also Puerto Rico and the U.S. Virgin Islands) and, up to 15 of the 35 percent, originating in the United States. This difference in the rules of origin obviously permits certain imports not qualifying for the GSP duty-free treatment to utilize the Caribbean preference.

Competitive-need ceilings; graduation. Under the GSP, imports of an article from a BDC that reach an annual value that exceeds a ceiling (determined either as an amount equal to a certain percentage of total imports of that article, or an amount equal to a base value indexed by the percentage change of the U.S. gross national product since the base year) lose their duty-free status either temporarily or permanently. This provision is based on the premise that, by exceeding the ceiling, the BDC has shown to be sufficiently competitive in that product on the U.S. market and no longer needs the competitive advantage of the preferential treatment ("competitive-need" provision).

The competitive-need limitation does not apply to imports from any "least-developed" BDC (in the Caribbean Basin, Haiti), and may be waived by the President in specified circumstances. The percentage-based ceiling is generally not applied if the value of the imports in question is de minimis.

On the other hand, if the gross national product (GNP) per capita of a GSP BDC exceeds a certain level (equivalent to $8,500 indexed by one-half of the increase in the U.S. GNP since 1984), the country becomes subject to a stricter competitive-need formula, and within two years loses its overall GSP eligibility (is "graduated").

The Caribbean Basin preference contains no graduation provision nor, with one exception, any competitive-need provisions. The competitive-need related exception applies to sugar products (sugar, syrups, and molasses) whenever there is in effect a price-support program for sugar beets and sugar cane under Section 22 of the Agricultural Act of 1933 (see p. 15). In that event, the same competitive-need ceilings that apply to GSP imports are used, unless the President suspends or relaxes them after finding that such action will not interfere with the price-support program.

As an alternative to the loss of the tariff preference in such a situation, the President may, at the request of the country involved, establish an appropriate quantitative sugar import limitation (quota) for the country. This alternative is discussed in more detail in the section on U.S. Sugar Quotas and the CBI (p. 15).

U.S. Import Requirements for Agricultural Products from CBI Countries*

The Caribbean Basin Economic Recovery Act (CBERA) provides the President authority to give duty-free treatment for almost all agricultural products imported from designated beneficiary countries. Important exceptions are sugar, syrups, and molasses, which are generally exempted from duties under both the CBP and the Generalized System of Preferences (GSP) but under the CBP are subject, in certain circumstances, to a special regime, as mentioned in the immediately preceding section.

CBERA does not provide any special exemptions from nontariff restrictions that the United States applies to agricultural imports. Nontariff restrictions in force apply to all agricultural imports from the Caribbean as well as all other sources.

Seven products typically account for about 90 percent of total U.S. agricultural imports from the 21 CBP beneficiary countries. These seven products are: bananas, coffee, cocoa, tobacco, sugar, molasses, and beef and veal. The remaining 10 percent of imports come from a wide range of products including primarily other tropical fruits, vegetables, and horticultural products. The value of total agricultural imports from CBP beneficiaries ranges annually between $1.8 and $2.0 billion.

The restrictions -- mostly of the nontariff type -- that apply to agricultural imports fall into five categories: international commodity agreements; import quotas; health, sanitary, and phytosanitary (plant health) standards; marketing standards; and trade-remedy provisions.

International Commodity Agreements

The United States is a party to several international commodity agreements and study groups. Commodity agreements generally intend to stabilize trade, supplies, and prices of one commodity in world markets. There is one agreement that is particularly important to the CBI countries, the International Coffee Agreement.

The United States and eight of the CBI countries are parties to the International Coffee Agreement. The agreement regulates world trade in coffee by issuing export stamps according to the annual export quota amounts agreed upon by member countries. To carry out its obligation under the agreement, the United States allows primarily only ICA member coffee carrying ICA official stamps to enter its borders. The United States has a small and declining import quota for non-ICA quota coffee, which permits some non-ICA member coffee to be imported. At the request of the exporting member countries, no stamps have been issued by the ICA since early 1985 because high world market prices made export quotas unnecessary. At the present time, as world prices have declined in recent months, there are discussions underway among member countries to reestablish ICA export quotas.

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* Prepared by Donna U. Vogt.

Import Quotas

The United States applies import quotas to a number of agricultural commodities and products. Most important to the CBI countries are quotas on sugar (which are discussed on pp. 14-17) and meat.

Section 22 of the Agricultural Adjustment Act of 1933 authorizes the President to impose fees or quotas on imported agricultural products that interfere with any USDA domestic commodity program. At present, Section 22 quotas are established on imports of sugar-containing products, dairy products, peanuts, and cotton. Quotas that now apply to sugar imports are implemented under different authority (see p. 15).

All U.S. beef and veal imports come under the Meat Import Act of 1979, an import quota regime based on a countercyclical formula intended to limit imports when domestic meat production is high, and increase them when production is low. Under the Act, import quotas are imposed whenever imports are expected to exceed 110 percent of an annual quota set by the Secretary of Agriculture. Since its enactment, beef and veal imports from CBP countries have not been limited by this quota arrangement.

Beef and veal imports from CBP countries are also subject to special conditions if they are to be accorded duty-free treatment (see p. 4).

Health, Sanitary, and Phytosanitary Standards

The United States regulates imports of agricultural products to prevent the inflow of commodities that do not meet domestic health and sanitation standards and that might carry diseases or chemical residues not permitted on U.S.-origin foods and plants. These regulations apply to imports from any source.

The Federal Meat Inspection Act requires that every foreign country with plants preparing meat for export to the United States certify that an inspection program at least equal to that established under U.S. laws and regulations exists in each plant. USDA conducts periodic on-site reviews of these certified foreign establishments' inspection programs. In addition, beef and veal imports are reinspected at the major ports of entry and at inland facilities. Samples from the meats are tested for chemical residues. Tobacco imports are also inspected, graded, and certified pesticide free by the Agricultural Marketing Service of USDA at ports of entry.

Inspections of fruit and vegetable imports are made randomly at the border by officials of USDA's Animal and Plant Health Inspection Service (APHIS) and the Food and Drug Administration (FDA). The U.S. Customs Service is ultimately responsible for releasing the import into this country. It holds the import item at the border while APHIS or FDA inspect the shipment. The APHIS inspectors examine for infractions of health, sanitary, and phytosanitary (plant health) requirements. They look for pests and diseases that are not native to the United States (examples include fruit flies, and citrus canker). The FDA inspectors check for residues of specific pesticides that are not legally permitted or permitted only under certain tolerance levels in the United States.

Marketing Standards

When adopted by producers and approved by the U.S. Department of Agriculture, quality standards are applied to certain fruits and vegetables. Items not meeting the standards, called marketing order rules, are not allowed into fresh markets. Marketing order rules were established in Section 8(e) of the Agricultural Marketing Agreement Act of 1937. These rules set standards for grade, size, quality, and maturity of the product before it can be marketed. Imports of the same agricultural product must meet the same standards as domestically produced products if there is a marketing order established for that product.

Every article of foreign origin or its container imported into the United States must be labeled or marked in English in a conspicuous place as to the nature of the article and its country of origin. However, U.S. law exempts from the marking requirement, certain "unmarkable" articles included in the so-called "J" list. This list includes natural products such as vegetables, fruits, nuts, berries, and live or dead animals, etc. Even for these natural product imports, the container must bear the country of origin label. This label must be clearly seen by the "ultimate purchaser". However, current regulations state that if the product is substantially changed (transformed) by processing in the United States, the processor is considered the "ultimate purchaser", since the place of "substantial transformation" as a rule determines the country of origin of a product for import purposes (see p. 5).

Trade-Remedy Laws

Beginning with bilateral trade agreements in the early 1940s, U.S. law has provided agricultural producers with the opportunity to receive relief from competing imports if certain conditions exist. The conditions that warrant relief include unfair-trade practices that stem from policies in the exporting country (often subsidies or two-tiered pricing) which in most cases, but not necessarily, cause injury to U.S. industries, or fair-trade practices which nevertheless threaten to cause or do cause injury to U.S. producers. Some ot these measures are discussed elsewhere (see U.S. Antidumping and Countervailing Laws, p. 12).

A remedial measure specific to the Caribbean Basin Preference and applicable exclusively to imports of specified agricultural products is Section 213(f) of the CBERA (known as the "fast-track" provision), which protects U.S. producers of perishable products from being swamped by competitive imports from CBP countries. This provision permits U.S. domestic producers of perishable agricultural products who are petitioning for regular import relief under Section 201 of the Trade Act of 1974, also to petition the Secretary of Agriculture for emergency temporary import relief if such perishable commodity is being imported from a CBP country in such increased quantities as to be causing substantial injury to their industry. This section allows the President, at the recommendation of the Secretary of Agriculture, within 21 days after the petition date, to withdraw the preferential duty-free treatment from the product while the International Trade Commission is pursuing its regular import relief investigation within its considerably longer statutory limits.

Trade in Textiles *

Although tariffs on textile products are significantly higher than tariffs on most other product categories, quotas are a more important factor in limiting textile imports into the United States. These quotas are established in accordance with a multilateral agreement known as the Multi-Fiber Arrangement (MFA) and the bilateral agreements negotiated with individual supplier countries (mostly under MFA guidelines). In the Caribbean area, the United States has bilateral agreements with Costa Rica, the Dominican Republic, Guatemala, Haiti, Jamaica, and Panama, and unilateral controls on imports from Barbados. The MFA, the bilateral agreements, and unilateral controls are based on statutory authority of Section 204 of the Agricultural Act of 1956 (7 U.S.C. 1854).

Under the MFA, approximately 120 categories of textile products have been defined. Quotas are established for particular categories from particular countries when it is determined that imports are causing or threatening to cause "market disruption," which is defined by a list of economic criteria. Typically, quotas will be set at or somewhat above the level of imports already obtained, and future growth will be allowed at a specified rate. The MFA sets 6 percent as the usual quota growth standard, but allows for higher and lower growth rates.

In February 1986 the President announced a program of "guaranteed access" to the U.S. market, outside the established quotas, for certain Caribbean-produced apparel. Subsequent regulations 2/ specified that, in order to be eligible, the products must be assembled from fabric formed and cut in the United States and the same U.S. firm must act as both exporter of components and importer of assembled articles. Products not meeting all criteria of the program will be subject to regular quotas. Moreover, the program is not completely open-ended: guaranteed access levels are contingent on special bilateral agreements with supplier countries.

The guaranteed access program has been referred to as "Super 807" because, in practice, it combines the advantages of the newly implemented program with the benefits of the longstanding provisions of Item 807.00 of the Tariff Schedules of the United States. Under

* Prepared by Edward B. Rappaport.

2/ Notice of the Committee for the Implementation of Textile Agreements, Federal Register, June 11, 1986, p. 21208-21211.

this tariff item, imported articles (of any kind, not just apparel) that are assembled abroad at least in part from components of U.S.-origin -- but not further manufactured -- are exempt from customs duty on the value of their U.S. components. Item 807 imports of textile apparel are subject to regular quotas. Also, because the guaranteed access program has more stringent conditions (for example, component fabrics must be formed as well as cut in the United States) than Item 807, not all Item 807 imports will qualify for the program.

Some 85 to 90 percent of apparel imports from the Caribbean in recent years has been accounted for by trade under Item 807. 3/ Total textile and apparel imports from the Caribbean in 1985 amounted to $649 million, which was equivalent to 4.1 percent of apparel imports from all sources. The predominance of 807 trade in the Caribbean garment industry is probably due as much to basic economic forces as to the special tariff treatment. The area offers low-wage labor and geographic proximity, the latter being important for timeliness of delivery as well as cost of transportation. But the yarn and fabric industries in these countries are not efficient enough to be competitive internationally. Therefore, there are incentives to use the Caribbean for labor-intensive assembly operations utilizing American-origin cut fabric.

Early experience with the guaranteed access program indicates that regular quotas have been a significantly limiting factor and that Caribbean apparel exports have the potential for significant growth. Jamaica, which in April 1986 became the first country to formally enter the program, saw its garment exports increase by 57 percent in 1986 over 1985.

Section 936 of the Internal Revenue Code, and Other CBI-Related Fiscal Revenue Measures *

Section 936

The Tax Reform Act of 1986 (P.L. 99-514) included in its broad revision of the Internal Revenue Code a provision designed to stimulate investment in both Puerto Rico and countries that qualify for the Caribbean Basin Initiative (CBI). Specifically, the Act modifies prior law's tax benefit for investment in U.S. possessions so that the benefit also indirectly applies to investment in CBI countries. Nonetheless, the new tax measure does not approach the magnitude of the U.S. tax credit for investment in CBI countries that was part of the President's original CBI proposal, but which was not adopted.

* Prepared by David L. Brumbaugh.

3/ The Philippines is the only significant Item 807 supplier of apparel outside the Caribbean area.

Under section 936 of the U.S. Internal Revenue Code, qualifying U.S. corporations that invest in Puerto Rico and other U.S. possessions are exempt from U.S. taxes on two broad types of income: (1) income from active business operations in the possessions; and (2) income from certain financial assets (termed Qualified Possessions Source Investment Income, or QPSII). Under prior law, no more than 40 percent of a qualifying corporation's gross income could consist of QPSII. In order to qualify as QPSII, income had to be from ownership of financial assets that were linked with tangible investment located in the possessions.

The Tax Reform Act of 1986 eased requirements for QPSII, so that it can now be generated by financial assets linked to active business operations in countries that qualify for the CBI, as well as operations in the possessions. The Act's modification of section 936 was designed to complement Puerto Rico's own "twin plant" initiative, under which the Government Development Bank of Puerto Rico loans funds to firms that establish plants in CBI countries -- plants that are complements of other operations in Puerto Rico. Under the Tax Reform Act, Government Development Bank assets can produce QPSII despite their ultimate association with assets located outside of Puerto Rico. It should be noted, however, that the portion of a qualifying corporation's gross income that can consist of QPSII was reduced by the Act from 40 percent to 25 percent.

Other Revenue Measures

Section 8101 of the Omnibus Budget Reconciliation Act of 1986 (P.L. 99-509) provides for a Customs user fee in an amount equal to 0.22 percent of the value of an imported product to be levied effective December 1, 1986, on most imported products. The fee rate will be reduced to 0.17 percent on October 1, 1987. Exempted from the fee are imports from CBP beneficiaries and least developed developing countries.

U.S. Antidumping and Countervailing Laws *

CBI Countries and U.S. Antidumping and Countervailing

Antidumping and countervailing are two mechanisms designed to counteract the competitive effect in the United States of products that have been imported by using unfair pricing methods: dumping, i.e., selling a product at less than its fair value (as defined in the law), or subsidization, i.e., providing special assists to the production or exportation of the product in question. The unfair competitive effect is counteracted by the levying, after an investigation of the pertinent facts, of an antidumping or countervailing duty equivalent to the monetary value of the margin of unfairness (respectively, difference between the actual and "fair" value; and value of the subsidies). In addition to determining whether the imports in question have been unfairly priced and, if so, the value of the margin

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* Prepared by Vladimir N. Pregelj.

of unfairness, a determination must also be made in all antidumping and most countervailing cases whether such imports have caused or threatened material injury to, or materially retarded the establishment of, an industry in the United States. If both determinations are affirmative, the respective duty is levied. An investigation can be suspended if an agreement is reached under which either the unfair pricing practice is eliminated or exports cease altogether, or, where an injury determination is required, action is taken to eliminate the injurious effect of the import.

An injury determination is not required in all countervailing cases. An injury test is applied only in countervailing cases involving imports from the so-called "countries under the Agreement." Such countries are primarily those that have acceded to the Agreement on Subsidies and Countervailing Measures ("Subsidies Code") of the GATT, but include also countries that have in force with the United States an agreement in substance equivalent to the Code.

In countervailing cases involving countries "not under the Agreement," an injury test is applied only to duty-free articles (including those that are free of duty under a preferential program such as the GSP or CBP) but then only if such action is required by the international obligations of the United States. The latter provision, in actual practice, means the nondiscriminatory (MFN) treatment obligation under Article I of the GATT and, hence, applies only to countries that are GATT members but not parties to the Code. Countries that are parties neither to the Code or an equivalent agreement nor to the General Agreement are not entitled to an injury test for any product.

In the U.S. countervailing practice, there are, consequently, three categories of countries with respect to the applicability of the injury test: (1) "Countries under the Agreement," for which an injury test is applied to imports of all subsidized products; (2) GATT members that are not "countries under the Agreement," for which an injury test is applied only to imports of duty-free products. Since the test applies to products regardless of the reason for their duty-free status, beneficiaries of the GSP and especially of the CBP have an advantage in this respect over GATT members which are not beneficiaries of either preferential treatment, in that a considerably greater number of their products is entitled to the test; and, (3) Countries that are neither "under the Agreement" nor GATT members, for which no injury test is applied to any subsidized products.

The importance of the injury test lies in the fact that, in cases subject to it, the levying of a countervailing duty against subsidized imports is somewhat less likely since an import found to be subsidized (which, by itself, would subject it to the countervailing duty if the injury test were not required) very well could be found not injurious to a U.S. industry and, hence, immune from the duty.

CBERA countries falling into each of the three categories are: (1) "Countries under the Agreement": designated beneficiaries El Salvador, Honduras (both on the basis of a bilateral agreement rather than accession to the Subsidies Code), Belize, and Saint Vincent and the Grenadines, and the nondesignated Turks and Caicos Islands (the latter three specifically comprised in the United Kingdom's accession to the Code); (2) GATT members, not "under the Agreement": designated beneficiaries Antigua and Barbuda, Bahamas, Barbados Dominica, Dominican Republic, Grenada, Haiti, Jamaica, Saint Cristopher-Nevis, Saint Lucia, Trinidad and Tobago, and nondesignated CBERA countries Guyana, Nicaragua, and Suriname; possibly (through the accession to the GATT by their respective metropolitan countries; status could not be verified) the nonindependent beneficiaries British Virgin Islands, Montserrat, and Netherlands Antilles, and the nondesignated Cayman Islands; (3) GATT nonmembers, not "under the Agreement": beneficiaries Costa Rica, Guatemala, and Panama, and nonbeneficiary Anguilla; possibly also any of the three nonindependent countries listed in category (2).

Countervailing Injury Test and Costa Rica

As can be seen from the preceding paragraph, Costa Rica is a country within the third category -- it is neither a "country under the Agreement" nor a party to the GATT. Consequently, its subsidized exports to the United States are not entitled to an injury test, and may be countervailed on the basis of an affirmative determination of subsidization alone.

Recently, imports from Costa Rica were the subject of countervailing investigations on two occasions. In both, the International Trade Administration of the U.S. Department of Commerce determined that Costa Rica was, indeed, not entitled to an injury test. The earlier of the two cases, initiated in July 1984, involved Portland hydraulic cement. In the preliminary phase of the investigation, subsidization was determined to exist, after which the investigation was suspended on the basis of an agreement concluded between Costa Rica and the United States in December 1984, in which the exporters renounced all benefits of subsidization. The other case, involving fresh cut flowers (miniature and standard carnations, and pompon chrysanthemums) and initiated in April 1986, followed an identical course. After a preliminary affirmative determination of subsidization, a suspension agreement, based on the elimination of subsidization, was reached in January 1987, obviating the need for the assessment of a countervailing duty.

U.S. Sugar Quotas and the CBI *

The United States has traditionally depended upon foreign sources of supply to meet a portion of its sugar needs. From 1934 through 1974, the Federal sugar program, through quotas, divided a growing U.S. market between foreign and domestic suppliers in a roughly 45/55 percent split. Partially in response to a strong world market and high domestic sugar prices, Congress in 1974 did not renew the sugar program.

* Prepared by Jasper Womach.

Quotas, but only on the import of foreign sugar, were again adopted in 1982 and remain in use; no limits are applied to sugar production or sales by U.S. producers. The present quotas have been imposed in conjunction with the domestic sugar price support program as a means of assuring prices to U.S. producers at the minimum level mandated in the Agriculture and Food Act of 1981 and the Food Security Act of 1985. The use of import quotas, to limit U.S. sugar supplies and thereby raise the price to domestic producers, affords a price support mechanism which, if carefully administered, creates no cost for the Federal Government. Rather, the entire cost of supporting U.S. sugar prices above world levels is absorbed by the domestic food industry and ultimately consumers, as well as foreign suppliers whose access to the U.S. market is thereby reduced.

The present quotas are imposed under the authority of section 201(a) of the Trade Expansion Act of 1962. The authority is codified as Headnote 2 of subpart A of part 10 of Schedule 1 of the Tariff Schedules of the United States (TSUS) (19 USC 1202).

Each quota country is given a fixed percentage share of an annually variable global U.S. sugar base quota which depends on projected U.S. production and consumption. A country's fixed share is equal to its average share of the U.S. market between 1975 and 1981. A quota country, however, is also assured a minimum absolute quota allocation, at present set at 7,500 short tons. In addition, certain other adjustments may be made to the base quota and/or country allocations, which may result in the shares of the latter in the total quota differing somewhat from their statutory shares in the base quota. No exception or special consideration in the administration of the quotas is given to countries in the Caribbean Basin.

The U.S. Government's sugar price support program could alternatively be protected by import quotas or fees imposed under the authority of section 22 of the Agricultural Act of 1933, as amended (7 USC 624). Restrictions under this provision, however, are subject to statutory limits: quotas may not be set at levels lower than 50 percent of import levels during a past representative period, nor may fees exceed 50 percent ad valorem. Neither mechanism is restrictive enough to achieve the mandatory support price in the present world sugar market.

Sugar import restrictive action under section 22, however, when used, has a direct bearing on the Caribbean Basin preference for sugar. During any time that such action is in effect, duty-free sugar imports under the CBERA become subject to competitive-need ceilings. As indicated in the section on competitive-need provisions (p. 6), if the ceilings are exceeded by any country, imports of sugar from that country either lose their duty-free status, or alternatively, at the request of the country, become subject to special import quotas. Three Caribbean countries, whose sugar imports exceeded the competitive-need limits prior to the enactment of the CBERA, cannot use the alternative of foregoing duty-free status for sugar, but rather are subject to statutory competitive-need quotas as follows: Dominican Republic, 780,000 tons; Guatemala, 210,000 tons; and Panama, 160,000 tons.

Competitive-need sugar import quotas come into force only if they are more restrictive than regular quotas. They may, however, be suspended or adjusted upward if the President determines that such action is appropriate and will not interfere with section 22 actions to protect the price support program for sugar. On the other hand, the President also may suspend duty-free treatment for all or part of the sugar imported under competitive-need quotas.

In 1981, prior to the imposition of sugar import quotas, the United States imported 4,566 thousand short tons of raw value sugar. Caribbean Basin countries supplied 1,480 thousand tons. At an average world price of 16.93 cents per pound in 1981, the f.o.b. value of Caribbean shipments to the United States was $501 million. The U.S. global sugar quota for 1987 is 1,001 thousand tons, and the Caribbean countries are limited to 351 thousand tons (35 percent of the global quota). At the U.S. market stabilization price of 21.78 cents per pound, the c.i.f. value of 1987 Caribbean nation quotas is $153 million. Included in the 1987 Caribbean nation quotas are: Barbados, 7,500 tons; Costa Rica, 17,583 tons, Dominican Republic, 160,160 tons, Haiti, 7,500 tons; Jamaica, 10,010 tons.

TABLE 1. U.S. Sugar Quotas for Caribbean Basin Countries

	Statutory Share of Base Quota (percent)	Actual 1987 Quota Allocation (short tons)
Barbados	0.7	7,500
Belize	1.1	10,010
Costa Rica	1.5*	17,583
Dominican Republic	17.6	160,160
El Salvador	2.6*	26,020
Guatemala	4.8	43,680
Guyana	1.2	10,920
Haiti	MQ	7,500
Honduras	1.0*	15,917
Jamaica	1.1	10,010
Nicaragua	2.1*	0**
Panama	2.9	26,390
St. Christopher-Nevis	MQ	7,500
Trinidad & Tobago	0.7	7,500
Caribbean Countries	37.3+	350,690
All Other Nations	62.7-	652,740
Global Quota	100.0	1,003,430

* Under the formula by which each nation's sugar quota was established, Nicaragua received 2.1 percent. However, by Presidential Proclamation 5104 of September 23, 1983, Nicaragua's quota was changed to 6,000 tons. The difference between 6,000 tons and 2.1 percent of the global quota was reallocated in the following proportions: Costa Rica, 30 percent; El Salvador, 18 percent; and Honduras, 52 percent.

** Imports of all products from Nicaragua, including sugar, are now prohibited by Executive Order 12513 of May 1, 1985. Nicaragua's 6,000 ton quota is being left unfilled.

MQ: Ten countries (including Haiti and St. Christopher-Nevis) have a combined 0.3 percent share of the global quota. Each of these countries is individually assured a minimum quantity. In 1987, the minimum quantity is 7,500 tons. This also accounts for 7,500-ton allocations to Barbados, and Trinidad and Tobago.

BALANCE OF PAYMENTS CONSIDERATIONS, AND FINANCIAL ASSISTANCE AVAILABLE TO THE CBI COUNTRIES

Balance of Payments Situation of CBI Countries *

Balance of Payments, Foreign Exchange Reserve, and Investment

A country's balance of payments is the record of all payments and receipts between its residents and the residents of the rest of the world during a given period of time. The balance of payments systematically records several different types of transactions: (1) all flows of real resources between the domestic economy of a country and the rest of the world; (2) all changes in a country's foreign assets and liabilities resulting from economic transactions; and (3) government and private unilateral transfer payments.

The changes in the foreign exchange reserves of a country are recorded as a part of the balance of payments of that country. In most developing countries, currencies do not float freely and exchange controls are administered by central banking authorities. Thus, the level of foreign exchange holdings is affected by real resource flows between countries and by capital flows. The major ways of increasing foreign reserves in developing countries are (1) by achieving a positive trade balance, (2) by attracting a positive flow of investment capital from abroad, (3) by borrowing from abroad, and (4) by reducing interest payments abroad. Foreign exchange holdings are frequently used to pay for imports of goods or services, to repay debt, or to allow a government to influence the exchange rate of its currency.

In most developing countries, where the goods and services balance is usually in deficit, the development and growth of manufacturing and other export industries depends, to a great extent, on maintaining a net inflow of investment capital from abroad. Overseas investment may be direct or indirect. This increases the foreign reserves of a country and also increases export earnings. Reduced imports, vis-a-vis exports, would also result in foreign exchange savings that could potentially be applied productively. Countries with large foreign debts to be serviced must have large trade surpluses to avoid current account deficits that drain foreign reserves and lead to higher levels of borrowing. Large current account deficits tend to reduce investment opportunities in developing countries and lower development potential.

Balance-of-Payments Problems in the Caribbean

Chronic balance-of-payments problems, coupled with shortages of foreign exchange, have been a pervasive feature of the Latin American and Caribbean economies since an international financial crisis surfaced in 1982 when Mexico announced it was unable to meet debt service

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* Prepared by Glennon J. Harrison

obligations. The causes of external account imbalances are numerous, but most countries in the region have been affected in similar ways.

External events and internal policies have produced a situation that effectively reversed many of the gains of the previous decade. Throughout the 1970s, most Latin American countries pursued growth policies in the face of two external shocks--the oil crises of 1973 and 1979--that led to large increases in import bills. The recycling of petrodollars led to overborrowing in most, if not all, of the countries of the region. Oil-producing countries in Latin America borrowed on projected future earnings, while non-oil exporting nations borrowed to maintain growth and to pay for petroleum imports. Expansionary credit and fiscal policies produced rapid economic growth in many countries.

The full extent of the problems afflicting the region only became apparent in 1981-1982, with the onset of a world recession. Reduced demands for Latin American and Caribbean exports and a region-wide decline in gross domestic product reduced public sector savings, led to a severe financial crisis, and reduced foreign exchange holdings. Many Caribbean countries turned to the International Monetary Fund for balance-of-payments support, to the World Bank for structural adjustment loans, and to commercial lenders for additional balance-of-payments support at market rates.

A dramatic reversal of capital flows, overvalued currencies, and heavy debt service obligations siphoned off resources needed for development. According to the Inter-American Development Bank, the net transfer of resources (capital inflow less payments of profit and interest) out of Latin America amounted to nearly $100 billion between 1982 and 1985. This amount was greater than the positive net transfer of resources into the region during the preceding 8 years. 4/

The current account of the balance of payments of most Caribbean countries has traditionally been in deficit or extremely weak, but this has especially been true since 1982. Sluggish export performance, a strong demand for imports, and high levels of debt service have been the main causes of current account problems. In most countries, exports lag behind imports, and foreign financing must be arranged to cover the difference. Additionally, high levels of debt-service payments absorb a significant portion of export earnings and reduce foreign exchange holdings. Debt rescheduling has provided some relief by reducing interest payments. Foreign reserves would increase--or at least stop falling--in most Caribbean countries if investment inflows were to rise substantially. An increase in exports would also promote higher levels of foreign reserves.

Balance-of-payments problems and limited foreign reserve holdings pose a barrier to higher levels of domestic investment. The weak natural resource base and small size of domestic markets means that

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4/ Inter-American Development Bank. Economic and Social Progress in Latin America, 1986 Report. Washington, D.C., Inter-American Development Bank, 1986.

TABLE 2. Balance of Payments in Five Caribbean Basin Countries, 1985
($ millions)

	Barbados	Costa Rica	Dominican Republic	Haiti	Jamaica
Exports	300.5	930.3	868.1	206.6	568.6
Imports	-559.2	-1,005.1	-1,257.1	-337.9	-998.8
Trade Balance	-258.7	-74.8	-389.0	-131.3	-430.2
Services (net)	293.5	-299.4	-39.4	-103.5	239.2
Transfers (net)	5.6	47.0	265.0	123.0	169.5
Current Account Balance	40.3	-327.3	-163.4	-111.7	-21.5
Direct Investment and Long-Term Capital	23.9	-139.1	294.1	60.8	-273.5
Short-Term Capital	23.0	-54.2	-70.0	-8.2	31.5
Exceptional Financing a/	--	530.2	-1.1	0.9	100.7
Change in Reserves	-2.9	-63.6	-82.7	24.6	5.2

Minus sign (-) indicates a debit.

a/ Exceptional financing includes loans for balance-of-payments support.

Source: International Monetary Fund. International Financial Statistics. February 1987.

new investments usually generate high levels of imports, especially of equipment and raw materials. Typically, this represents a short-term drain on foreign reserves. The role of the government in capital formation has also been reduced as a result of the austerity and stabilization programs in most countries. This has further dampened prospects for a return to 1970s-style growth.

Renewed international capital flows into the region greatly improve chances for solving the balance-of-payments problem and increasing foreign reserves. However, private capital flows into the region have remained relatively weak and official flows have often been used to offset deficits. Significant reductions of current account deficits -- through increased exports and reduced imports of goods and services -- may have the most potential in the short run for reversing recent economic declines in the region.

Financial Assistance Available for the CBI Countries *

The countries of the Caribbean Basin region are eligible for aid from a variety of sources. The first portion of this section identifies the organizations that provide assistance to the five countries which are the subject of the current inquiry. The second portion reviews the activities of these organizations in each country, with particular attention to any relationship which may exist between their operations.

For simplicity and ease of presentation, the discussion of aid programs is divided into separate sections dealing with balance of payments and development-type aid.

Organizations Providing Assistance

Multilateral organizations. There are four principal organizations providing multilateral aid to the CBI countries: the International Monetary Fund (IMF), the World Bank, the Inter-American Development Bank (IDB), and the Caribbean Development Bank (CDB).

The International Monetary Fund is not generally considered to be a foreign aid agency. Rather, it is an international institution established to maintain international monetary stability. The IMF provides balance-of-payments assistance, generally at near-market rates of interest and short repayment terms. The borrower generally agrees to undertake a number of basic reforms in its macroeconomic policies and its governmental economic operations. The extent of the reforms and the rigor of the performance standards will depend on the size of the IMF loan. (Technically, IMF "loans" are "purchases" of convertible currencies or SDRs by an IMF member with its own currency, and "loan repayments" are "repurchases" by a member of its own currency with convertible currencies or SDRs.) IMF loans are generally disbursed in a series of annual payments, each preceded by a review of the country's economic performance. As a country's cumulative borrowing from the IMF grows, the IMF's scrutiny of country performance intensifies. Failure to meet agreed standards may make the borrower ineligible to draw any further from the line of credit established by the IMF loan. The IMF also provides credit through some specialized accounts, on much easier terms, for countries experiencing serious drops in their export earnings. IMF credits are denominated in Special Drawing Rights (SDRs.) Since 1982, the IMF has lent the five CBI countries in question the equivalent of $842.8 million in balance-of-payments aid.

The World Bank provides loans at both market and concessional rates. Haiti received all its aid from the World Bank during the 1982-86 period from the its low-cost loan facility, the International Development Association (IDA). The other countries received their aid at basically market rates from the World Bank's main loan "window," the International Bank for Reconstruction and Development (IBRD.) Between 1982 and 1986, the IBRD and IDA lent $614.8 million to the five CBI countries. Through a third subsidiary, the International Finance Corporation (IFC), the World Bank also made loans and equity investments totalling $37.1 million to help strengthen private firms in the five CBI countries. The World Bank provides aid for three basic types of activities. During the period in question, $273.8 million was provided for development or ameliorative activities, $70.4 million to enhance exports, and $207.7 million to promote economic adjustment. In the case of loans for economic adjustment, the borrower agrees to undertake specified changes in economic

* Prepared by Jonathan E. Sanford.

policy or procedure and specific criteria are set to help measure the borrower's performance according to those criteria. All these loans for export enhancement and economic adjustment went to Costa Rica and Jamaica.

The Inter-American Development Bank was the largest provider of developmental assistance to the five countries in question during the 1982-86 period. The bulk of its aid was lent at market rates from the IDB's ordinary capital account. In a few instances, depending on the type of activity funded or the economic status of the recipient country, the IDB provided aid instead from its concessional rate Fund for Special Operations (FSO). Between 1982 and 1986, the IDB lent $1,564.7 million to the five CBI countries in question, all but $423.6 million of it on market terms. Some $121.2 million was lent for the purpose of financing exports. The remainder was lent to finance development type activities.

The Caribbean Development Bank also provides loans to countries of the Caribbean region. The United States is not a member of this institution and little information is readily available on its loan program in the countries in question.

U.S. Government agencies. The United States has several vehicles for channeling aid to the countries of the Caribbean region. The Agency for International Development (AID) is the foremost of these. It manages two types of aid, development assistance (DA) and Economic Support Fund (ESF) assistance, which are discussed here separately. Other direct aid is provided through the P.L. 480 Title I and Title II food aid programs, the U.S. Department of Agriculture Section 416 program, the Peace Corps, and the Export-Import Bank. In addition, the U.S. Government provides guarantees or insurance through the AID's Housing Investment Guarantee program (HIG), the USDA General Sales Manager 102 program (GSM-102), and the Overseas Private Investment Corporation, all of which encourage private lending or investment in developing countries. In addition to discussion of foreign assistance and export promotion programs, this paper also includes within its purview debt rescheduling. It does not, however, cover military aid.

The Economic Support Fund was the largest single channel for U.S. aid to the five CBI countries in question during the 1982-86 period. Through it the United States gave the countries a total of $1,179.0 million. 5/ AID administers the ESF program, though the allocation decisions for the money are made by the Department of

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5/ In 1982, Congress appropriated $300 million specifically for economic aid to CBI beneficiary countries. Those funds were allocated through the Economic Support Fund, administered by the AID. Subsequently, sizable amounts were appropriated for similar purposes through regular ESF appropriations.

State. ESF aid is provided to countries of foreign policy significance to the United States. The dollars provide balance-of-payments support for the recipient country economy, while the local currency which they generate is often used for budgetary support to the government, for a range of development-type activities, or for activities to strengthen private sector institutions and to encourage privatization of recipient government programs. For the most part, during the 1982-86 period, the dollar portion of this ESF aid was used to establish special lines of credit through which private firms could obtain the foreign exchange necessary for the purchase of inputs from abroad (spare parts, components or raw materials, for instance) which they needed to keep the economy functioning.

AID development aid was the next largest category of U.S. assistance, as some $462.1 million was provided (mainly in the form of grants) to finance specific development projects in the five countries during the 1982-86 period. AID makes assistance available in five functional areas: (1) agriculture, rural development and nutrition, (2) population planning, (3) health, (4) education and human resources development, and (5) selected development activities. Traditionally, aid activities in all categories have focused on activities that help individuals directly and serve basic human needs. In recent years, increased emphasis has been put in all sectors on strengthening private sector institutions, improving productivity, and encouraging nontraditional exports. This has been particularly the case for the selected development activities category.

The Public Law 480 Title I program is another major vehicle through which the U.S. Government makes balance-of-payments assistance available to recipient countries. Through it the U.S. Government channeled $416.4 million in aid to the five countries during the 1982-86 period. The program provides long-term low-interest loans to finance commercial purchases of U.S. agricultural products. In that respect, it is termed food aid and a mechanism for stimulating exports of U.S. agricultural products. To the extent that the recipient country would have had to finance the purchase of the food products anyway, using its own funds, the Title I program serves as a form of concessional balance-of-payments aid. It is counted here as such.

The Public Law 480 Title II program channels humanitarian relief on a grant basis to needy people in recipient countries. Prepared U.S. food products are supplied to private voluntary organizations (PVOs) for use in programs they administer providing food for child feeding or maternal health, food for work, or aid to displaced persons.

The Section 416 food assistance program, named after a 1982 amendment to the Agriculture Act of 1949, is administered by the U.S. Department of Agriculture. The program has two parts. The regular Sec. 416 program makes grants of food aid (originally surplus dairy products but now the full range of surplus agricultural goods in the USDA stockpile) to help needy countries. This aspect of the Sec. 416

program is treated here as humanitarian aid. The Sec. 416 program also administers the sugar quota offset program. This program compensates sugar producing countries for losses they have sustained in their earnings because of reductions the U.S. Government made in their U.S. sugar import quotas in order to help U.S. domestic sugar producers. To the extent the program provides funds to compensate countries for specific losses, it is a form of balance of payments aid and is treated as such here. It offsets purchases of food the countries would have had to finance with their own money and allows those funds to be used for other purposes.

The Peace Corps program finances the salaries and operating costs for U.S. Peace Corps volunteers stationed in recipient countries. Volunteers usually work with local government agencies to deliver services to individuals in areas of need. It is treated here as a development aid program.

The Export-Import Bank of the United States (Eximbank) provides direct loans from its own resources and guarantees for loans made by private lending institutions to finance the purchase of U.S. exports by foreign countries. Though principally a program to encourage U.S. exports, the Eximbank program also has the effect of helping countries gain access to products they need and of making commercial credit more available to them at more favorable costs than otherwise might be the case.

The GSM-102 program, administered by the General Sales Manager of the U.S. Department of Agriculture, makes guarantees for private loans which finance commercial export sales of U.S. agricultural products. Except in the case of a default, no money is advanced by the U.S. Government. The program is mainly intended to help facilitate exports of U.S. farm products. Loans are made at prevailing commercial rates, though arguably the borrower country may receive more credit at lower cost than might otherwise be available if the Government backing were unavailable. To the extent the program increases the borrower country's access to international credit, however, it also serves as a form of market-rate balance-of-payments assistance.

The Overseas Private Investment Corporation (OPIC) offers political risk insurance for private investment, and investment financing in order to encourage American firms to invest in developing countries. Such investments are deemed to help promote development by increasing the stock of capital and skills within the recipient country. The bulk of OPIC's operations involve guarantees for private loans or insurance for equity investments. OPIC also has a small direct loan program which provides direct credit to U.S. investors in certain situations. The direct loan program is very small, limited during the period in question to $15 million a year worldwide, and the figures for it are included here in the finance category.

The Housing Investment Guarantee (HIC) program, administered by AID, makes guarantees to developing country governments assuring them of U.S. Government backing for certain borrowings they might make in U.S. capital markets. The proceeds from the borrowings are used to finance construction or improvements in domestic housing stock in the recipient countries. The HIG program is quite small. Not all the guarantee authority from the HIG program has been used, as the high commercial interest rates in recent years have often discouraged the foreign governments from borrowing. Usually, however, the guarantee authority remains available for use at a later date if interest rates decline. To the extent that the borrowings are used to finance purchases of items needed from abroad for housing construction, the HIG program is developmental/humanitarian in its effect. To the extent that the dollars are exchanged for local currency and the inputs for housing improvement are purchased from local sources, however, the HIG program provides a form of market-rate balance-of-payments support to the recipient country.

Assistance Activities in Each Country

As the above indicates, there are many different organizations providing assistance to CBI countries for a variety of purposes. The relationship between the organizations may differ significantly depending on the types of aid they each offer and the degree to which the operations of one effect the operations of another. In that respect, it is particularly important to distinguish between the relationship which exists between the multilateral and bilateral agencies that provide assistance for balance of payments purposes and those that provide aid for development-type purposes.

In their assistance for balance-of-payments purposes, the World Bank, International Monetary Fund, and Agency for International Development coordinate their activities fairly closely. They expect, through their combined activities, to help stabilize the borrower's international monetary situation by financing a major part of its balance of payments shortfall. They also hope to persuade the borrower to make fundamental reforms in its economic policies and operations. The success of one depends significantly on the actions of the other. In most cases, the terms and conditions for balance-of-payments aid from the three organizations are complementary.

During the period 1982-86, the United States channeled $1,665 million in balance of payments aid to the five countries in question. During the same period, the World Bank and International Monetary Fund lent $1,050 million to the same nations. (Of this, $119 million was lent from special IMF accounts, with no real adjustment conditions, to help countries cover losses in their export earnings.) The bulk of the U.S. aid was provided as grants or very low-cost loans, while the international agency aid was mainly market-rate or near-market rate loans. In most cases, the United States was involved earlier and for more money than were the international agencies. The U.S. goal was generally to help stabilize the situation and to help the country prepare to undertake the basic reforms (such as willingness to adopt a unified exchange rate) that were necessary if it were to be eligible for adjustment aid from the multilateral agencies. Balance-of-payments aid from the multilateral agencies was generally more costly and smaller than similar aid from the United States. Nevertheless, a working relationship with the World Bank and IMF gives a country a certain cachet, in effect a seal of approval, that is seen as having an important impact on the attitudes of private lenders and investors. Regaining private sector confidence is seen as vital if the country is to stabilize its international situation. Most analysts believe that confidence of this sort cannot be acquired simply through increased flows of bilateral assistance.

This level of complementarity and interdependence is not always present in the case of development-type activities. The United States spent $571 million on development and humanitarian activities in these five countries during the 1982-86 period (AID development aid, P.L. 480 Title II, Peace Corps, and Sec. 416 regular aid). The World Bank lent $381 million while the Inter-American Development Bank lent $1,515 million for developmental purposes during the same period. The foreign aid agencies usually consult with each other about their plans. In a few cases, they may cooperate in funding portions of a project if it is high priority and too large for one of them to do alone. In most situations, however, each agency finances separate and distinct projects which are only marginally interdependent with other projects financed by the other development aid organizations.

In a third category of aid, which is neither balance-of-payments nor developmental, the United States steers private money into activities which benefit U.S. foreign policy interests and the interests of foreign countries. In some cases, as with direct loans by the Eximbank or OPIC, the U.S. Government supplies the principal which finances the desired activity. In most cases, however, the U.S. Government uses its full faith and credit to encourage desired private activities without any direct outlay of U.S. funds. For the guarantee portion of Eximbank operations and for the U.S. Department of Agriculture's GSM-102 program, the U.S. Government provides financial backing for private loans which finance commercial exports from the United States. For the AID Housing Investment Guarantee (HIG) program and the Overseas Private Investment Corporation (OPIC), the United States hopes to promote economic growth abroad by providing guarantees or insurance coverage which will help encourage private lenders or investors to put their resources into developing countries. The administering agency may coordinate its actions with other relevant U.S. agencies or at least inform them of its plans. Generally, though, there is little reason for the administering agency to coordinate its activities with any of the multilateral organizations.

Balance-of-Payments Assistance. Barbados -- Barbados has received balance-of-payments aid from the International Monetary Fund only once in the past five years. In conjunction with a 1982 loan, Barbados tightened its fiscal and monetary policies in order to limit government deficits and stabilize its international payments situation. The United States provided $1 million in compensatory aid in 1986 through the Sec. 416 sugar quota offset program. The United States provided Barbados with no other balance of payments aid during the 1982-86 period.

Costa Rica -- Between 1982 and 1986, the United States provided Costa Rica with $708.4 million in balance-of-payments aid, one of the highest amounts per capita for any U.S. aid recipient. Some $587.6 million of it was in the form of direct grants from the Economic Support Fund (ESF), $112.2 million in concessional loans from the P.L. 480 Title I Program for purchase of U.S. agricultural products, $5.8 million from refinancing of debts owed the Export-Import Bank, and $2.8 million from the USDA's Sec. 416 sugar quota compensation program. An additional $109.3 million is currently scheduled for BOP aid from these four sources in fiscal 1987. Besides helping stabilize the balance-of-payments situation for the country, this aid is aimed at encouraging the Costa Rican government to undertake major reforms of its national economic policies and institutions.

The U.S. aid is closely coordinated with balance-of-payments aid provided by the International Monetary Fund and the World Bank. During the early part of the 1982-6 period, the United States took the lead in financing the Costa Rican deficit and promoting economic reform. Once Costa Rica had undertaken or agreed to undertake some major reforms, the IMF and World Bank began providing added flows of aid aimed at encouraging these trends. The U.S. aid program aims at facilitating Costa Rican compliance with the terms of its loans with the international agencies. The IMF focuses on reforms in Costa Rican fiscal and monetary policy. The World Bank focuses on many of the same issues, particularly reductions in government deficits. In addition, its 1985 structural adjustment loan aims at encouraging major improvements in productivity through elimination of import barriers, new steps to expand exports, reductions in production subsidies, and divestiture of money losing public sector firms. The U.S. aid program concentrates mainly on steps to strengthen the private sector and encourage privatization of public sector activities. The terms and conditions for aid from the three agencies are all similar and complementary.

Dominican Republic -- Between 1982 and 1986, the United States provided the Dominican Republic with $355.8 million in balance-of-payments aid. The bulk of it ($218 million) came by way of ESF grants, while another substantial portion ($113.3 million) took the form of low-cost loans from the P.L. 480 Title I program. In 1986, the Dominican Republic also received a significant allocation of food aid (valued at $24.5 million) in compensation for reductions in its sugar quota. Some $96.3 million in balance-of-payments aid is scheduled for 1987. This U.S. aid program aimed at: (1) helping meet the country's serious balance of payments deficit, (2) promoting economic policy reform, and (3) encouraging the country to take the economic steps necessary for it to establish a working relationship with the IMF. In particular, the ESF program sought to encourage the Dominican government to adopt a unified exchange rate, remove subsidies on domestic food, and remove export restrictions. The P.L.

480 Title I program urged the government to eliminate counterproductive price controls and subsidies on agricultural products.

In 1985, the Dominican Republic signed a standby loan agreement with the IMF in which it agreed to undertake a program of major economic reform. (Its previous drawings had not been regular IMF loans but rather borrowings from special IMF accounts set up to help countries suffering from serious deterioration in their export earnings.) Prominent among the reforms agreed to in 1983 was the adoption of a unified exchange rate and mechanisms for valuing the peso according to market forces. The Dominican Republic also agreed to work toward reducing the public sector deficit. The terms and condition for the IMF loan and the U.S. aid program are complementary. The current U.S. program aims at supporting the objectives of the IMF program and at facilitating the privatization of certain government operations.

Haiti -- Between 1982 and 1986, the United States provided haiti with $107.4 million in direct balance-of-payments assistance. Some $65 million of it was in the form of P.L. 480 Title I concessional loans, while another $41.4 million was ESF grants, and $1 million was food aid, compensating for cuts in the country's U.S. sugar quota. The U.S. aid focused, during this period, on providing basic balance of payments support and financing acceptable development projects. The prevailing attitude of the Duvalier government made it difficult for the U.S. aid programs to successfully encourage significant economic policy reform. Haiti also had a difficult relationship with the IMF during the Duvalier period. Between 1974 and 1983, the country entered into seven loan agreements with the IMF, few of which were successful. Haiti was able to draw only $22.4 million of the $64.2 million line of credit approved in 1983, for example, before it became ineligible for further aid because of failure to meet the agreed economic performance criteria.

In 1986, the post-Duvalier government moved to institute major budgetary reforms and to streamline public finance. The World Bank and IMF held joint consultations with the new government and agreed to provide loans to support a new three year adjustment program. In December 1986, the IMF approved a new loan for $24.8 million in concessional-rate assistance. The World Bank is reportedly working on plans for an approximately $30 million IDA economic recovery credit (basically a structural adjustment loan) which is to be presented to the World Bank's Board of Executive Directors for approval early in 1987. The United States also increased its allocation of balance of payments aid for Haiti following the change in governments. This aid is aimed at encouraging and supporting the new government's program of economic and financial reform.

Jamaica -- Between 1982 and 1986, the United States provided Jamaica with some $491.9 million in direct balance-of-payments support. Of this, $333 million was ESF aid grants, $125 million was P.L. 480 Title I concessional-rate loans, $32.5 million was refinance of debts owed the Eximbank, and $1.5 million was agricultural products given in compensation for sugar quota cuts. Paralleling this, the World Bank and the IMF lent Jamaica an additional $304 million in adjustment aid during this period.

The U.S. and international aid programs aimed at bolstering the Jamaican economy in the face of a major contraction in the world market for its primary export, bauxite. They sought to mitigate the effects of austerity and to encourage the adoption of growth-oriented policies. The three aid programs were basically complementary in their terms and criteria. The U.S. program focused especially on strengthening the private sector. The World Bank adjustment loans aimed particularly at encouraging nontraditional exports, enhancing productivity, and encouraging greater reliance on market forces. The IMF program stressed currency depreciation, trade liberalization, and reduction of government deficits.

In 1986, Jamaica fell out of compliance with the standards for economic performance it had agreed to with the IMF and it was able to borrow only part of the funds set aside for it in the latest IMF loan. Jamaica also fell seriously in arrears in its repayments to the IMF for prior loans. For a while, it appeared that Jamaica would be declared ineligible for further IMF assistance because of these arrearages. A joint mission by the IMF, AID, and World Bank studied the problem, in late 1986, and recommended steps to help ameliorate the situation. By early 1987, the arrearages were settled and the IMF was preparing to loan proposal for submission to its Board of Executive Directors which embodied new performance criteria. The level of cooperation among the three aid agencies in the Jamaican case was apparently especially high.

Development or Humanitarian Aid. Barbados -- Other than the Peace Corps, the United States has no development program in Barbados. The Peace Corps funds its Barbados operations through its Eastern Caribbean program. No separate enumeration of its costs in Barbados is readily available. The multilateral development banks had sizeable operations in the country during the 1982-86 period. The World Bank and IDB joined together in cofinancing an education project in 1986. They also both lent for road construction and educational activities in different years. In the main, however, they each financed separate projects in different areas of activity.

Costa Rica -- The Inter-American Development Bank was the largest single source of development aid for Costa Rica during the 1982-86 period, with $189.9 million in loans. The IDB lent for a wide range of activities, including substantial amounts in agriculture, transportation, urban improvement, and energy. The United States provided $100.2 million in development aid to Costa Rica during this period, most of it through AID's development aid program. The U.S. effort focused mainly on activities designed to strengthen the private sector and to encourage the growth of nontraditional exports. Some aid was also provided for agriculture and education products. The World Bank lent only once for nonbalance of payments purposes, a $25.2 million export development loan.

Dominican Republic -- The Inter-American Development Bank was also the largest source of development aid for the Dominican Republic during this period, with $750.3 million in loans. The U.S. development aid program, at $160.9 million, and the World Bank program, at $77.9 million, were significantly smaller in all respects.

The IDB lent to support a broad range of activities, including commercial and industrial recovery, agriculture, energy development, and construction of basic infrastructure. The World Bank focused mainly on transportation infrastructure and urban development. The U.S. development aid program put special emphasis on agriculture, with programs to encourage growth of nontraditional crops and diversification of exports away from sugar. The U.S. program also emphasized activities to strengthen the private sector, encourage privatization, and stimulate other forms of nontraditional exports. The IDB also lent heavily in recent years to encourage agricultural diversification. Its two loans to stimulate nontraditional farm exports were each larger than U.S. outlays in this area during the 1982-86 period. The United States and the World Bank also funded efforts, in recent years, to expand training for vocational education. Because the aid programs sponsored by the three foreign aid agencies often worked with the same Dominican institutions, a degree of coordination may be added to their operations which is not evident in their published descriptions. For the most part, however, the three foreign aid agencies financed parallel, rather than intersecting, activities and autonomous development projects.

Haiti -- The United States was the largest provider of development assistance to Haiti during the 1982-86 period, with $148.4 million in aid, closely followed by the IDB, with $140.2 million. The World Bank's IDA provided $114.2 million in concessional credits during the period.

The U.S. aid program focused heavily on agriculture and nutrition, with $54 million spent by AID for agriculture activities and $45 million spent by P.L. 480 Title II for feeding programs. The U.S. also put substantial emphasis on activities to strengthen the private sector, encourage private investment, and facilitate nontraditional exports. Significant help was also provided for improving health care delivery systems. The IDB also put particular stress on agricultural development and on programs for public health (water and sewerage). The World Bank lent mainly for power generation and urban development activities. At various times, the three agencies all shared in funding different aspects of the Haitian program for improving primary education. The World Bank and the U.S. also funded reforestation projects, while the U.S. and the IDB were both active with the swine repopulation effort. The bulk of their activities were separate, however, and even in the same sector most were not closely related to the projects funded by the other foreign aid organizations.

Jamaica -- In Jamaica also, the Inter-American Development Bank was the institution providing the largest amount of development aid during the 1982-86 period, with $189.9 million in total loans.

The United States allocated $161.8 million for development aid to Jamaica during these years, mainly development aid grants from AID, while the World Bank lent an additional $135.3 million. The IDB funded a wide range of activities. Nearly half its aid went, though, for projects aimed at promoting economic growth, recovery, and the development of new exports. The World Bank also concentrated substantially on industrial development and export stimulation. It also lent to help improve the country's economic infrastructure and to deal with urban development problems. The U.S. aid program emphasized activities designed to strengthen the private sector, to encourage structural reforms needed for growth in nontraditional exports, and to help maintain essential social services in the face of domestic austerity. In terms of sectors, most U.S. development aid was channeled through the selected development activities category to help promote productivity and strengthen private sector institutions. Substantial levels of U.S. aid were also allocated in the agriculture and education sectors. The record shows that the IDB and U.S. AID both financed some projects for primary education and vocational training as well as projects designed to help small farmers. These appeared to be parallel rather than interdependent programs, however. The three aid agencies may have coordinated their development plans generally, but at the operating level they each apparently financed separate projects with few intrinsic links to the activities funded by the other agencies.

Market-related programs. Of the U.S. Government's market-oriented international finance programs, OPIC has been the most active in the Caribbean region. As table 7 shows, it wrote insurance or provided finances to promote U.S. private investment in all five of the countries covered by this inquiry. The U.S. Department of Agriculture's GSM-102 program also was active, particularly in the Dominican Republic, Haiti, and Jamaica, facilitating U.S. agricultural exports to the area. The Eximbank provided very little in the way of new finance for these countries during this period. The HIG program was also rather small, infrequent, and limited in the number of countries covered by its aid.

TABLE 3. World Bank Loans to Selected Caribbean Countries, 1982-1986
(Bank fiscal years in current $ millions)

COUNTRY	LOAN AMOUNT	PURPOSE
Barbados*		
1986	$10.0	Education (primary, secondary, vocational ed.)
1984	3.0	Education (supplemental to earlier 1982)
1984	11.0	Transportation (road construction & maintenance)
1983	10.5	Small-scale enterprise
1982	20.0	Education (classroom construction, training, etc.)
Costa Rica*		
1985	$80.0	Structural Adjustment loan (SAL)
1985	3.5	Technical assistance (TA) for SAL
1983	25.2	Export development loan***
Dominican Republic*		
1986	$35.8	Road construction (rural roads)
1985	5.8	Vocation education
1984	3.8	Transportation (coal terminal & power engineering)
1983	7.1	Urban development (Santo Domingo)
1982	25.4	Urban sites & services (low-cost housing)
Haiti**		
1985	$21.1	Power generation
1984	19.1	Rural development
1983	26.0	Power generation
1983	9.0	Education
1983	21.0	Urban development (3 cities)
1982	14.0	Highways
1982	4.0	Forestry
Jamaica*		
1985	$55.0	SAL
1985	9.0	TA for SAL
1984	16.0	Urban transport (Kingston)
1984	15.1	Agriculture & export crops
1984	9.0	Water & Sewerage
1984	4.5	TA for administrative reform
1983	15.1	Industrial credit**
1983	15.0	Transport (highway maintenance)
1983	60.2	SAL
1983	30.1	Export development**
1982	30.5	Power generation

* Loans made through the International Bank for Reconstruction and Development (IBRD) at market rates.

** Loans made through development finance corporations in borrowing countries.

Source: World Bank annual reports, relevant years.

TABLE 4. Balance of Payments Assistance for Five Selected Caribbean Countries, 1982-1987 (in current $ millions)*
(fiscal years for each organization)

	1982	1983	1984	1985	1986	1987
Barbados						
IMF	48.1	--	--	--	--	NA
U.S. sec. 416 Sugar Offset	--	--	--	--	1.0	1.6
Costa Rica						
IMF	--	115.7	--	55.1**	--	NA
World Bank	--	--	--	83.5	--	NA
U.S. Economic Support Fund (ESF)	20.0	157.0	130.0	160.0	120.6	87.7
U.S. Food Aid (PL 480, Title I)	18.0	27.5	22.5	28.0	16.2	16.0
Eximbank (Refinancing)	--	--	5.8	--	--	--
U.S. Sec. 416 Sugar Offset	--	--	--	--	2.8	5.6
	** only $34.7 million used					
Dominican Republic						
IMF	51.2	443.0**	--	80.1	15.8	NA
U.S. ESF	41.0	8.0	34.0	95.0	40.0	20.0
U.S. PL 480, Title I	16.9	23.0	26.0	35.5	12.9	30.0
U.S. Sec. 416 Sugar Offset	--	--	--	--	24.5	46.3
	** only $178.2 million used					
Haiti						
IMF	38.0	64.2**	--	--	24.8	NA
U.S. ESF	--	10.1	5.1	5.0	21.3	29.2
U.S. PL 480, Title I	13.0	11.0	11.0	15.0	15.0	18.0
U.S. Sec. 416 Sugar Offset	--	--	--	--	1.0	1.6
	** only $22.47 million used					
Jamaica						
IMF	--	21.3	140.8	117.3**	--	NA
World Bank	--	60.2	--	64.0	--	NA
U.S. ESF	90.4	59.4	55.0	70.0	58.0	25.0
U.S. PL 480, Title I	17.5	20.0	20.0	35.0	32.6	38.4
Eximbank (Refinancing)	--	--	17.9	4.6	--	--
U.S. Sec. 416 Sugar Offset	--	--	--	--	1.5	2.9
	** only $83.2 million used					

* International Monetary Fund loans are made in Special Drawing Rights (SDRs). For purposes of this chart, the SDRs have been converted to dollars using the average prevailing exchange rate for the year the loan was made.

Source: Compiled from data in other tables or information provided by relevant agencies.

TABLE 5. Inter-American Development Bank (IDB) Loans to Selected Countries, 1982-1986

YEAR	AMOUNT	TYPE*	PROJECT
Barbados			
1986	19.0	(OC)	Education (primary, secondary, vocational)
1985	6.0	(OC)	Industry, Tourism & Fishery Development
1985	4.7	(OC)	Environment/Public health (Hospital Expansion Program)
1985	7.0	(FSO)	Environment/Public health (Hospital Expansion Program)
1984	5.0	(OC)	Construction of Fishery Port
1984	3.0	(FSO)	Construction of Fishery Port
1984	24.5	(OC)	Transportation (Construction of Access Road)
1984	0.2	(FSO)	Small Projects (Credit Women Entrepreneurs)
1984	0.8	(FSO)	Technical Cooperation
1983	2.0	(FSO)	Education (Student Credit Program)
1983	0.5	(FSO)	Technical Cooperation
1982	1.5	(FSO)	Technical Cooperation
Costa Rica			
1986	40.2	(OC)	Transportation (highway construction)
1986	28.7	(OC)	Agriculture (Irrigation Project)
1986	7.4	(OC)	Energy (Construction Geothermal Power Plant)
1986	3.1	(OC)	Agroindustrial Development
1985	0.1	(FSO)	Technical Cooperation
1984	6.0	(FSO)	Agroindustrial Cooperative Credit Program
1984	35.0	(OC)	Agriculture (Farm Credit to Small/Medium Scale Farms)
1984	17.3	(FSO)	Urban Development (low-income housing)
1984	23.3	(OC)	Environment & Public Health (Urban & Rural Water Supply & Sewage System)
1984	5.0	(FSO)	Environment & Public Health (Urban & Rural Water Supply & Sewage System)
1984	1.8	(FSO)	Technical Cooperation
1983	35.8	(OC)	Agriculture (Livestock Development Program)
1983	0.2	(FSO)	Technical Cooperation
1982	26.6	(FSO)	Agriculture (increasing production)
1982	25.0	(OC)	Industrial Recovery Program
1982	9.8	(FSO)	Development of Small Municipalities
1982	0.3	(FSO)	Technical Cooperation
Dominican Republic			
1986	50.0	(OC)	Tourism (expand facilities)
1986	90.0	(OC)	Agriculture\agroindustrial Credit Generation of Foreign Exchange)
1986	0.5	(FSO)	Small Projects\Industrial Credit Production)
1986	6.9	(FSO)	Technical Cooperation
1985	72.5	(OC)	Agriculture (Agroindustrial Credit Program)

TABLE 5. Inter-American Development Bank (IDB) Loans to Selected Countries, 1982-1986 -- continued

YEAR	AMOUNT	TYPE*	PROJECT
Dominican Republic			
1985	55.0	(OC)	Industrial Recovery
1985	18.0	(OC)	Construction (Reconstruction of Haina Breakwaters)
1985	1.3	(FSO)	Technical Cooperation
1984	150.0	(OC)	Energy (Technical Cooperation)
1984	37.0	(OC)	Tourism Development
1984	11.0	(OC)	Energy (Seismic Studies for Oil)
1984	7.5	(FSO)	Preinvestment Studies
1984	0.1	(FSO)	Small Projects
1984	2.1	(FSO)	Technical Cooperation
1983	50.0	(OC)	Industrial Recovery
1983	17.0	(OC)	Transportation (Rehab of Local Roads)
1983	3.0	(FSO)	Transportation (Rehab of Local Roads)
1983	25.2	(FSO)	Education (Adult Education & Literacy)
1983	.5	(FSO)	Small Projects
1983	1.4	(FSO)	Technical Cooperation
1982	100.0	(FSO)	Environment & Public Health (Santo Domingo Water System)
1982	50.0	(OC)	Environment & Public Health (Santo Domingo Water System)
1982	5.4	(FSO)	Education (Expand Santo Domingo Technical Institute)
1982	0.2	(FSO)	Small Projects
1982	1.7	(FSO)	Technical Cooperation
Haiti			
1986	4.2	(FSO)	Environment/Public Health (Rural Development Community Health/Rural Water Supply)
1986	51.8	(FSO)	Environment/Public Health (Port Authority Prince Storm Drainage Program)
1985	4.0	(FSO)	Agriculture (Blanche River Irrigation & Agriculture)
1985	8.8	(FSO)	Public Health/Environment (Rural Water Systems)
1985	1.9	(FSO)	Education (primary "normal" school)
1985	2.6	(FSO)	Technical Cooperation
1984	3.4	(FSO)	Technical Cooperation
1983	17.4	(FSO)	Agriculture (Swine Restocking Program)
1983	0.9	(FSO)	Technical Cooperation)
1982	17.6	(FSO)	Agriculture (Integrated Agricultural Development)
1982	15.0	(FSO)	Agriculture & Industry (Agricultural & Industrial Credits)
1982	.5	(FSO)	Small Projects
1982	2.1	(FSO)	Technical Cooperation

TABLE 5. Inter-American Development Bank (IDB) Loans to Selected Countries, 1982-1986 -- continued

YEAR	AMOUNT	TYPE	PROJECT
Jamaica			
1986	16.2	(OC)	Agriculture (stimulate farm production & productivity)
1986	15.0	(OC)	Industrial & Tourism Credit
1986	0.2	(FSO)	Support for Small-Scale Entrepreneurs
1986	6.7	(FSO)	Economic Growth
1986	15.4	(OC)	Economic Growth
1985	14.6	(FSO)	Transportation (road improvements & maintenance)
1985	5.4	(OC)	Preinvestment Studies
1985	1.3	(FSO)	Technical Cooperation
1984	0.5	(FSO)	Small Projects
1984	.1	(FSO)	Technical Cooperation
1983	10.0	(FSO)	Agriculture (Small Farmers Development)
1983	40.0	(OC)	Industrial Rehabilitation
1983	37.2	(OC)	Education (Primary)
1983	8.6	(FSO)	Education (Primary)
1983	14.2	(OC)	Township Development (raise farm output)
1983	2.2	(FSO)	Township Development (raise farm output)
1983	0.6	(FSO)	Technical Cooperation
1982	0.3	(FSO)	Small Projects
1982	1.4	(FSO)	Technical Cooperation

* Type: Loans designated OC were made at market rates using IDB ordinary capital. Loans designated FSO were made at concessional rates for the IDB's Fund for Special Operations.

Source: IDB Annual Reports, relevant years.

TABLE 6. Development or Project Aid, Five Caribbean Countries, 1982-1987 (millions of current dollars) (fiscal years for each organization)

Barbados						
World Bank (IBRD/IFC)	20.0	10.5	14.3	--	10.0	N.A.
IDB	1.5	2.5	33.5	17.7	19.0	N.A.
Peace Corps	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Costa Rica						
World Bank (IBRD/IFC)	--	26.7	--	--	--	--
IDB	61.7	36.0	88.4	0.1	173.9	--
USAID	11.5	27.2	15.4	20.5	10.9	12.8
P.L. 480 II	3.4	0.2	--	--	--	--
Sec. 416: regular	--	--	--	--	1.1	--
Peace Corps	1.0	1.7	1.8	2.9	2.6	2.8
Dominican Republic						
World Bank (IBRD/IFC)	25.4	15.2	3.8	5.8	42.9	N.A.
IDB	157.3	97.1	207.7	146.8	141.4	N.A.
USAID	19.0	22.8	30.3	30.1	26.5	17.5
P.L. 480 II	3.1	2.3	2.8	1.9	1.4	1.7
Sec. 416: regular	--	5.1	--	--	3.9	--
Peace Corps	2.2	2.2	2.3	2.5	2.5	2.3
Haiti						
World Bank (IDA)	18.0	56.0	19.1	21.1	--	N.A.
IDB	35.2	18.3	3.4	27.3	56.0	N.A.
USAID	12.0	17.3	20.6	25.7	4.6	37.0
P.L. 480 II	7.8	7.1	8.6	7.6	13.4	14.0
Sec. 416: regular	--	--	0.2	0.4	0.6	--
Peace Corps	--	0.2	0.4	1.0	0.9	1.3
Jamaica						
World Bank (IBRD/IFC)	35.5	60.2	44.6	10.8	4.7	N.A.
IDB	1.8	112.7	0.6	21.3	53.5	N.A.
USAID	28.8	27.2	32.6	33.6	25.5	14.5
P.L. 480 II	--	--	0.4	0.1	2.4	0.1
Sec. 416: regular	--	--	--	1.0	--	2.2
Peace Corps	1.7	1.8	1.8	2.3	2.6	2.5

TABLE 7. U.S. Government Market-Related Programs Benefitting Five Caribbean Countries, 1982-1986
(fiscal years, millions of dollars)

	1982	1983	1984	1985	1986
Barbados					
Eximbank	--	--	--	4.3	--
OPIC Finance	--	0.3	--	--	--
HIC	10.0	--	--	--	--
Costa Rica					
GSM-102	15.7	--	2.9	--	--
OPIC Finance	1.7	7.1	4.0	3.2	18.7
Insurance	3.0	0.2	4.3	0.9	7.9
HIC	26.0	--	--	--	--
Dominican Republic					
Eximbank	--	--	20.0	--	--
GSM-102	59.6	30.7	52.9	--	--
OPIC Finance	5.6	1.2	0.27	3.4	9.0
Insurance	--	0.7	--	5.0	41.5
Haiti					
GSM-102	--	7.5	5.1	3.4	7.1
OPIC Finance	9.3	2.4	8.0	7.5	6.4
Insurance	--	0.7	--	0.4	0.9
Jamaica					
Eximbank	11.2	--	--	--	3.6
GSM-102	34.3	60.0	78.6	32.1	23.6
OPIC Finance	0.1	4.0	6.6	17.0	2.3
Insurance	1.5	0.2	1.9	5.4	--
HIC	--	2.5	--	1.5	--

NOTE:

Eximbank: Export-Import Bank of the United States.
GMS-102: USDA General Sales Manager's Export Guarantee Program.
OPIC: Overseas Private Investment Corporation.
HIC: AID's Housing Investment Guarantee Program.

Source: Information provided by spokesmen for relevant agencies.

TABLE 8. AID Development Aid -- Five Caribbean Countries, by Functional Areas of Activity, 1982-1987

	Agriculture, Rural Development and Nutrition	Population Planning	Health	Education and Human Resources Development	Selected Development Activities
Costa Rica					
1982	2,930	15	--	100	8,495
1983	15,650	975	5,988	600	3,946
1984	2,482	475	4,402	966	7,075
1985	2,950	1,125	50	3,796	12,605
1986	2,850	25	50	580	7,395
1987	1,350	25	50	600	13,975
Dominican Republic					
1982	10,525	111	533	207	7,671
1983	20,633	318	577	2,500	2,488
1984	16,830	50	4,924	7,140	1,402
1985	17,010	263	1,448	7,438	3,919
1986	9,100	2,450	1,300	4,531	7,119
1987	15,000	1,650	3,200	1,100	7,708
Haiti					
1982	3,625	1,530	5,445	830	585
1983	9,793	1,530	4,651	587	724
1984	10,228	2,820	6,179	490	925
1985	11,989	3,002	8,170	1,000	1,487
1986	8,226	3,138	6,542	2,250	2,100
1987	10,166	3,040	4,050	2,900	2,100
Jamaica					
1982	14,561	1,097	5,969	700	6,530
1983	5,781	1,322	668	8,605	6,805
1984	11,349	1,530	406	7,034	12,320
1985	15,555	2,138	244	7,048	8,565
1986	4,720	1,030	2,109	3,691	7,450
1987	8,000	1,500	1,500	4,000	8,000

APPENDIX B

UNITED STATES INTERNATIONAL TRADE COMMISSION

WASHINGTON, DC 20436

ANNUAL REPORT ON THE IMPACT OF THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT ON U.S. INDUSTRIES AND CONSUMERS

First Report
1984–1985

USITC PUBLICATION 1897
SEPTEMBER 1986

Prepared in Conformity With
Section 215(a) of the
Caribbean Basin Economic Recovery Act

EXECUTIVE SUMMARY

- The Caribbean Basin Economic Recovery Act, enacted on August 5, 1983, granted duty-free treatment of imports from designated Caribbean Basin countries.[1] Despite this preferential treatment, the value of U.S. imports from CBERA beneficiaries declined 23.7 percent from 1983 to 1985.
- The decline in the value of U.S. imports was caused principally by steeply falling prices and volumes of crude, and refined petroleum imports.
- Excluding the oil-exporting CBERA countries, U.S. imports increased in 1983–85 from each of the three CBERA regions—13.4 percent from Central America, 15.9 percent from the Central Caribbean, and 19.0 percent from the Eastern Caribbean. However, in the same period, U.S. imports from the world grew by 33.8 percent. The lower rate of increase from the CBERA countries is partially the result of the decline in U.S. imports of major non-oil CBERA export items—namely, sugar, bauxite, and alumina.
- Reflecting the new duty-free privileges provided by the CBERA, the duty-free portion of U.S. imports from the CBERA countries (including duty-free imports under the CBERA and GSP preference programs and duty-free imports under non-preferential MFN provisions) increased from 35 percent in 1983 to 56 percent in 1985.
- Imports entered duty free under the CBERA amounted to $578 million in 1984 and $498 million in 1985. Large protions of these totals were eligible for duty-free entry under the GSP or as the U.S. content value of goods entered under TSUS items 806.30 and 807.00. The drop in CBERA duty-free imports in 1985 is largely the result of a drop in sugar imports and the shift of sugar imports from the Dominican Republic from CBERA to GSP duty-free status.
- Imports entering under the CBERA accounted for 6.7 percent of total U.S. imports from beneficiary countries in 1984 and 7.4 percent of the total in 1985. In 1983, the share of U.S. imports entering under duty-free preference programs (all under GSP) was 6.5 percent. By 1985, the combined share of imports that were duty-free on a preferential basis (the GSP and the CBERA combined) rose to 15.4 percent.
- In 1985, U.S. exports to designated CBERA countries totaled $5.7 billion and imports totaled $6.7 billion. The resulting $944 million U.S. merchandise trade deficit was less than one-third of the deficits recorded with these countries in both 1981 and 1983.

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[1] The following countries were designated beneficiary countries upon the implementation of the CBERA: Antigua and Barbuda, Barbados, Belize, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Panama, Saint Christopher-Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, and the Virgin Islands (British). Pres. Proc. 5133 of Nov. 30, 1983 (48 FR 54453). The Bahamas was added in March 1985. Upon becoming independent of the Netherlands Antilles on Jan. 1, 1986, Aruba was designated as a beneficiary country, effective that date.

- The impact of the CBERA on U.S. industries and consumers has been minimal. Only a few domestic industries have experienced possible displacement of output exceeding one percent of shipments. These are mostly producers of tropical agricultural products. The impact on consumers is correspondingly small.

- The impact of the CBERA on the overall U.S. economy has been minimal primarily because of the low value of U.S. trade with CBERA beneficiary countries and the small portion of that trade that benefits from CBERA duty-free treatment. Total U.S. imports from CBERA countries in recent years have been less than 0.3 percent of U.S. GNP. Less than 10 percent of the value of U.S. imports from CBERA countries obtained new duty-free status as a result of the CBERA.

- Whereas the bulk of the effect of the one-time duty reduction most likely occurred during the first 2 years of the act, future growth in exports that are eligible for duty-free entry under the CBERA will likely occur as the result of current export-oriented investment by local and foreign investors. Major areas of investment in the CBERA region that benefit from this duty-free treatment include assembly operations of electrical and electronic parts, pineapples, citrus, cut flowers, and ethanol.

- Whereas the duty-free treatment of the aforementioned commodities may have been a factor considered by investors, it was not usually the primary motivating factor for such investment in the Caribbean Basin. The primary factors cited by investors included low labor costs and efforts to diversify agricultural production away from traditional crops. Ethanol is the single exception to this conclusion: a duty of 60 cents per gallon (about 60% ad valorem equivalent) is imposed on ethanol used for fuel. Thus, the duty-free treatment accorded by the CBERA gave the region a decided price advantage over other foreign suppliers.

- Other factors that may have contributed to the decision to invest in the Caribbean Basin include increased awareness of the region brought about by the publicity associated with CBERA, the expansion of free-trade zones in some of the countries, a greater willingness of organizations like the U.S. Overseas Private Investment Corporation to provide risk coverage and loan guarantees, and some efforts by local governments to ease taxes and regulations to encourage trade.

- Growth in Caribbean exports is likely to be slow because producers in the region face a number of constraints, including high transportation costs, inadequate infrastructure, and lack of experience and marketing channels in the United States. Other constraints include the perceived threat of protectionist measures in the United States, for example, the current countervailing duty and antidumping cases on cut flowers from Costa Rica and the pending legislation to limit imports of ethanol from the CBERA region.

TSUS schedule 1, animal and vegetable products: U.S. imports for consumption, 1981–85

Item	*1981*	*1982*	*1983*	*1984*	*1985*	*Absolute change, 1985 from 1983*	*Percentage change, 1985 from 1983*
Total (million dollars)	20,261	19,038	20,545	23,362	24,502	3,957	19.2
From leading 3 suppliers:							
Canada (million dollars)	2,264	2,515	2,680	3,039	3,096	416	15.5
Brazil (million dollars)	2,038	1,605	1,751	2,243	2,450	699	39.9
Mexico (million dollars)	1,482	1,609	1,736	1,715	1,799	63	3.6
From CBERA countries (million dollars)	2,013	1,714	1,914	2,179	2,084	170	8.8
Imports from CBERA countries entering under—							
GSP (million dollars)	313	213	335	315	233	-102	-30.4
806.30/807.00 (million dollars)	-	-	-	([1])	([1])	([1])	-
CBERA (million dollars)	-	-	-	452	334	334	-
Share from CBERA countries (percent)	9.9	9.0	9.3	9.3	8.5	-	-
Share of imports from CBERA countries entering under—							
GSP (percent)	15.5	12.4	17.5	14.4	11.1	-	-
806.30/807.00 (percent)	-	-	-	([2])	([2])	-	-
CBERA (percent)	-	-	-	20.7	16.0	-	-

[1] Less than $500,000.

[2] Less than 0.05 percent.

Source: Compiled from official statistics of the Bureau of the Census, U.S. Department of Commerce.

TSUS schedule 2, forest products: U.S. imports for consumption, 1981-85

Item	*1981*	*1982*	*1983*	*1984*	*1985*	*Absolute change, 1985 from 1983*	*Percentage change, 1985 from 1983*
Total (million dollars)	9,647	9,021	10,808	13,231	13,653	2,845	26.3
From leading 3 suppliers:							
Canada (million dollars)	7,379	6,949	8,163	9,490	9,682	1,519	18.6
Taiwan (million dollars)	320	283	390	462	453	63	16.3
Japan (million dollars)	201	183	221	280	323	102	45.7
From CBERA countries (million dollars)	31	30	30	32	40	10	33.3
Imports from CBERA countries entering under—							
GSP (million dollars)	17	19	19	19	23	4	21.0
806.30/807.00 (million dollars)	(1)	(1)	(1)	(1)	1	1	
CBERA (million dollars)	-	-	-	5	7	7	-
Share from CBERA countries (percent)	0.3	0.3	0.3	0.2	0.3	-	-
Share of imports from CBERA countries entering under—							
GSP (percent)	54.8	63.3	63.3	59.3	57.5	-	-
806.30/807.00 (percent)	(2)	(2)	(2)	(2)	2.5	-	-
CBERA (percent)	-	-	-	15.6	17.5	-	-

[1] Less than $500,000.

[2] Less than 0.05 percent.

Source: Compiled from official statistics of the Bureau of the Census, U.S. Department of Commerce.

TSUS schedule 3, textile fibers and textile products: U.S. imports for consumption, 1981-85

Item	*1981*	*1982*	*1983*	*1984*	*1985*	*Absolute change, 1985 from 1983*	*Percentage change, 1985 from 1983*
Total (million dollars)	9,780	10,186	11,906	16,499	18,381	6,475	54.3
From leading 3 suppliers:							
Hong Kong (million dollars)	1,959	2,050	2,333	3,023	3,318	985	42.2
Taiwan (million dollars)	1,336	1,520	1,756	2,227	2,376	620	35.2
Republic of Korea (million dollars)	1,173	1,243	1,461	1,931	2,032	571	39.0
From CBERA countries (million dollars)	315	338	398	502	649	251	63.0
Imports from CBERA countries entering under—							
GSP (million dollars)	1	1	1	1	1	0	0
806.30/807.00 (million dollars)	284	300	358	426	552	194	54.1
CBERA (million dollars)	-	-	-	1	2	2	-
Share from CBERA countries (percent)	3.2	3.3	3.3	3.0	3.5	-	-
Share of imports from CBERA countries entering under—							
GSP (percent)	0.3	0.2	0.2	0.1	0.1	-	-
806.30/807.00 (percent)	90.1	88.7	90.0	84.8	85.0	-	-
CBERA (percent)	-	-	-	0.1	0.3	-	-

Source: Compiled from official statistics of the Bureau of the Census, U.S. Department of Commerce.

TSUS schedule 4, chemical and related products: U.S. imports for consumption, 1981-85

Item	*1981*	*1982*	*1983*	*1984*	*1985*	*Absolute change, 1985 from 1983*	*Percentage change, 1985 from 1983*
Total (million dollars)	91,094	75,350	68,918	75,056	68,347	-571	-0.8
From leading 3 suppliers:							
Canada (million dollars)	10,223	10,538	10,543	12,224	12,792	2,249	21.3
Mexico (million dollars)	7,215	8,766	8,883	8,380	8,314	-569	-6.4
Venezuela (million dollars)	5,138	4,483	4,512	5,741	5,773	1,261	27.9
From CBERA countries (million dollars)	6,065	4,773	5,286	4,597	2,717	-2,569	-48.6
Imports from CBERA countries entering under—							
GSP (million dollars)	35	47	67	78	117	50	74.6
806.30/807.00 (million dollars)	-	-	-	-	-	-	-
CBERA (million dollars)	-	-	-	1	28	28	-
Share from CBERA countries (percent)	6.6	6.3	7.7	6.1	4.0	-	-
Share of imports from CBERA countries entering under—							
GSP (percent)	0.5	0.9	1.2	1.6	4.3	-	-
806.30/807.00 (percent)	-	-	-	-	-	-	-
CBERA (percent)	-	-	-	([1])	1.0	-	-

[1] Less than 0.05 percent.

Source: Compiled from official statistics of the Bureau of the Census, U.S. Department of Commerce.

TSUS schedule 5, nonmetallic minerals and products: U.S. imports for consumption, 1981-85

Item	*1981*	*1982*	*1983*	*1984*	*1985*	*Absolute change, 1985 from 1983*	*Percentage change, 1985 from 1983*
Total (million dollars)	5,874	5,257	6,150	7,931	8,714	2,564	41.6
From leading 3 suppliers:							
Japan (million dollars)	656	571	621	805	901	280	45.0
Belgium and Luxembourg (million dollars)	685	627	685	893	859	174	25.3
Canada (million dollars)	635	592	662	841	853	191	28.8
From CBERA countries (million dollars)	84	58	75	50	111	36	48.0
Imports from CBERA countries entering under—							
GSP (million dollars)	3	4	4	5	5	1	25.0
806.30/807.00 (million dollars)	(1)	-	(1)	(1)	(1)	(1)	-
CBERA (million dollars)	-	-	-	(1)	1	1	-
Share from CBERA countries (percent)	1.4	1.1	1.2	0.6	1.3	-	-
Share of imports from CBERA countries entering under—							
GSP (percent)	3.5	6.8	5.3	10.0	4.5	-	-
806.30/807.00 (percent)	(2)	-	(2)	(2)	(2)	-	-
CBERA (percent)	-	-	-	(2)	0.9	-	-

[1] Less than $500,000.

[2] Less than 0.05 percent.

Source: Compiled from official statistics of the Bureau of the Census, U.S. Department of Commerce.

TSUS schedule 6, metals and metal products: U.S. imports for consumption, 1981-85

Item	*1981*	*1982*	*1983*	*1984*	*1985*	*Absolute change, 1985 from 1983*	*Percentage change, 1985 from 1983*
Total (million dollars)	97,127	96,383	108,237	146,038	164,284	56,047	51.7
From leading 3 suppliers:							
Japan (million dollars)	30,494	30,564	33,129	46,742	56,715	23,586	71.1
Canada (million dollars)	21,984	22,006	25,705	35,456	36,353	10,648	41.4
West Germany (million dollars)	8,178	8,594	8,762	11,770	14,596	5,834	66.5
From CBERA countries (million dollars)	659	553	658	924	683	25	3.7
Imports from CBERA countries entering under—							
GSP (million dollars)	37	30	58	71	40	-18	-31.0
806.30/807.00 (million dollars)	176	224	313	315	149	-164	-52.3
CBERA (million dollars)	-	-	-	107	84	84	-
Share from CBERA countries (percent)	0.7	0.6	0.6	0.6	0.4	-	-
Share of imports from CBERA countries entering under—							
GSP(percent)	5.6	5.4	8.8	7.6	5.8	-	-
806.30/807.00 (percent)	26.7	40.5	47.5	34.0	21.8	-	-
CBERA (percent)	-	-	-	11.5	12.2	-	-

Source: Compiled from official statistics of the Bureau of the Census, U.S. Department of Commerce.

TSUS schedule 7, specified miscellaneous and nonenumerated products: U.S. imports for consumption, 1981–85

Item	*1981*	*1982*	*1983*	*1984*	*1985*	*Absolute change, 1985 from 1983*	*Percentage change, 1985 from 1983*
Total (million dollars)	20,179	21,330	24,299	32,020	37,376	13,077	53.8
From leading 3 suppliers:							
Japan (million dollars)	3,930	3,823	4,278	5,571	6,559	2,281	53.3
Taiwan (million dollars)	3,034	3,363	4,155	5,344	6,087	1,932	46.4
Republic of Korea (million dollars)	1,677	1,942	2,292	2,952	3,329	1,037	45.2
From CBERA countries (million dollars)	156	159	205	236	275	70	34.1
Imports from CBERA countries entering under—							
GSP(million dollars)	52	52	84	105	114	30	35.7
806.30/807.00 (million dollars)	76	76	77	81	84	7	9.0
CBERA (million dollars)	-	-	-	12	32	32	-
Share from CBERA countries (percent)	0.8	0.7	0.8	0.7	0.7	-	-
Share of imports from CBERA countries entering under—							
GSP (percent)	33.3	32.8	40.8	44.4	41.3	-	-
806.30/807.00 (percent)	48.7	47.8	37.7	34.4	30.6	-	-
CBERA (percent)	-	-	-	5.0	11.5	-	-

Source: Compiled from official statistics of the Bureau of the Census, U.S. Department of Commerce.

APPENDIX C

Trade and Employment Effects of the Caribbean Basin Economic Recovery Act

Economic Discussion Paper 20
by Gregory K. Schoepfle and
Clinton R. Shiells

U.S. Department of Labor
William E. Brock, Secretary
Bureau of International Labor Affairs
Robert W. Searby, Deputy Under Secretary

September 1986

Section 216 of the Caribbean Basin Economic Recovery Act states:

"The Secretary of Labor, in consultation with other appropriate Federal agencies, shall undertake a continuing review and analysis of the impact which the implementation of the provisions of this title have with respect to United States labor; and shall make an annual written report to Congress on the results of such review and analysis".

The second such annual report pursuant to Section 216 was transmitted to the Congress on September 12, 1986. This paper reproduces the report as transmitted to the Congress.

Copies of the report are available from the National Technical Information Service (NTIS), U.S. Department of Commerce, 5285 Port Royal Road, Springfield, Virginia 22161, telephone number (703) 487-4690; Stock No. PB 86-245602, 175 pp., $16.95 (paper copy); $5.95 (microfiche).

This report was prepared in the Office of International Economic Affairs, Division of Foreign Economic Research. Gregory K. Schoepfle is the Director of the Division, and Clinton R. Shiells is an International Economist in the Division.

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EXECUTIVE SUMMARY

This report is the second in a series of annual reports to the Congress pursuant to Section 216 of the Caribbean Basin Economic Recovery Act (CBERA). It analyzes the impact of the CBERA on U.S. trade and employment during the first two-years of operation of the program, i.e., the period January 1, 1984 to December 31, 1985.

The main findings of the report are:

- The continued U.S. economic recovery has led to increases in certain imports, but the imports from CBERA beneficiaries do not appear to have had an adverse impact on, or have constituted a threat to, domestic employment.
- A definitive evaluation of the impact on domestic employment of the CBERA still cannot be made at this time since trade flows are small and the program is still in its early stage.
- Since the effect of the CBERA cannot be isolated from that of other special tariff programs, this report analyzes the CBERA in the context of overall U.S. trade with beneficiary nations.
- While CBERA beneficiary countries provide a very small and declining portion of total U.S. imports (2-3 percent), the U.S. market is very important for the CBERA nations, accounting for about 50-60 percent of their total export earnings. Similarly, U.S. exports to CBERA beneficiaries constitute only 2-3 percent of total U.S. export shipments, but account for 30-40 percent of total imports by the CBERA-beneficiary nations.
- In 1985, U.S. imports from the CBERA-beneficiary nations amounted to nearly $6.7 billion, a 22 percent decline over 1984 imports of slightly under $8.6 billion. This decline largely reflects the downward trend in the value of crude and refined petroleum exports to the United States. About 90 percent of the nearly $2 billion decline in U.S. imports from CBERA beneficiaries in 1985 was attributable to declines in U.S. imports of petroleum products from the Netherlands Antilles and the Bahamas.
- In 1985, U.S. imports of nonpetroleum products from the CBERA-beneficiary nations dropped from their 1984 level of $4.4 billion to $4.3 billion. This 1984-85 decline of 3.2 percent in nonpetroleum imports came after two successive years of increases (17.5 percent in 1982-83 and 18.9 percent in 1983-84). Declines in two other significant basic materials, bauxite and sugar, also contributed to the decline in U.S. imports from the region.

- U.S. imports of manufactured products from the CBERA-beneficiary nations amounted to nearly $4 billion in 1985 (down from $6 billion in 1984) or about 59 percent of all imports from these countries (down from 67 percent in 1984). The CBERA-beneficiary countries' share of total U.S. imports of manufactured products was 1.4 percent in 1985 (down from 2.3 percent in 1984). However, refined petroleum products constituted 35.7 percent of U.S. imports of manufactures from the CBERA-beneficiary countries in 1985 (down from 53.6 percent in 1984), and 7.7 percent of U.S. imports of refined petroleum from all sources in 1985 (down from 15 percent in 1984).

- In 1985, U.S. exports to the CBERA-beneficiary countries fell from nearly $6.0 billion in 1984 to $5.7 billion in 1985, or by 3.5 percent; U.S. exports to 16 of the 21 CBERA-beneficiary nations declined. Leading categories of U.S. exports to CBERA-beneficiary nations in 1985 were petroleum, grain, fats and oils, machinery, plastics, chemicals, and electronic products.

- Many of the leading categories of U.S. exports to the Caribbean Basin region are also among the leading import categories, indicating a substantial two-way flow of trade. For a large part, this results from the extensive trade under TSUS item 807.00 (offshore assembly of U.S.-made parts or materials).

- U.S. imports from CBERA beneficiaries still tend to be concentrated in a relatively small number of products: crude and refined petroleum, bananas and other fresh fruits and vegetables, sugar, fish and shellfish, electronic components, non-ferrous metals and ores, apparel, jewelry, drugs and industrial inorganic chemicals, meat products, and leaf tobacco and cigars.

- Prior to passage of the CBERA, duties were paid on 65 percent of U.S. imports from the beneficiary nations. The balance entered MFN duty-free, duty-free under the Generalized System of Preferences (GSP), or was partially exempt from duty pursuant to items 806.30 and 807.00 of the Tariff Schedules of the United States (TSUS). In 1984, the first year of preferential tariff treatment under the CBERA, duties were paid on only 53 percent of the value of imports from these nations; by 1985, this had fallen to 44 percent. This reduction in the share of dutied imports is partially the result of the duty-free treatment of additional imports provided by the CBERA.

- Of the $6.8 billion in U.S. imports from all 27 nations eligible for CBERA benefits in 1985, $6.7 billion or 97.6 percent came from the 21 CBERA-beneficiary countries. Slightly under $2.2 billion (about 32 percent) of U.S. imports from the CBERA-eligible countries were imported MFN duty-free. Of the $4.7 billion subject to duty, $1.7 billion entered duty-free under one of the special U.S. tariff programs: $548 million under tariff provisions 806.30 and 807.00, $541 million under GSP, and $498 million under CBERA; duties were paid on the remaining $3.0 billion of imports.

- In dollar terms, the major beneficiaries of the CBERA in 1985 were the Dominican Republic, Costa Rica, Haiti, Honduras, Guatemala, and Jamaica. These same nations and El Salvador were the leading beneficiaries in 1984. More than a third of imports subject to duty in 1985 from Honduras and St. Christopher-Nevis entered duty-free under the CBERA.

- Leading categories of CBERA duty-free imports in 1985 included: sugar (over $100 million), meat and meat products ($99 million), electronic components and parts ($41 million), field crops ($29 million), and vegetables and melons ($28 million); other major items included prepared fruits and vegetables, cigars, industrial organic chemicals, fresh fruits, and electrical lighting and wiring equipment. The top ten categories accounted for 80 percent of CBERA duty-free value in 1985.

- Over time it can be anticipated that beneficiary nations will restructure their export baskets to maximize duty-free benefits of the CBERA. After the first two-years of operation, it is still too early to detect these shifts. While the value entered duty-free under the first year of CBERA was greater than that under GSP, GSP duty-free overtook CBERA duty-free imports in 1985.

- Given the current structure of imports from the region, the range of products eligible for duty-free treatment under the CBERA and GSP are quite similar. However, CBERA offers distinct advantages over GSP in certain products such as agricultural and forestry products, food and tobacco products, certain textile and apparel products, rubber products, primary metals, and electrical machinery.

- For some beneficiary countries, the CBERA duty-free benefits have been used extensively during the first two-years to permit duty-free entry of products which were not eligible for such treatment under the GSP because competitive-need limits had been exceeded.

- Imports of products assembled abroad using U.S.-origin components and parts (TSUS 807.00) accounted for 12 percent of total U.S. imports from CBERA beneficiaries in 1985 and were predominant in U.S. imports from several small beneficiary nations. TSUS 807.00 imports accounted for the bulk of U.S. imports (57 percent) from both Haiti and St. Lucia. U.S. imports from CBERA beneficiaries of U.S.-origin metal products sent abroad for processing and returned to the United States for further processing (TSUS 806.30) were insignificant in 1985.

- U.S. imports from CBERA beneficiaries under TSUS 807.00 have substantially higher U.S.-content value than imports from other regions. In 1985, U.S.-content value comprised 18.4 percent of the customs value of U.S. imports from all sources under TSUS 807.00; for imports from CBERA beneficiaries, the share of U.S. content was 69.7 percent.

- Two major industrial groups (SIC 23--Apparel and SIC 36--Electronic and Electrical Machinery) accounted for 86 percent of the value of U.S. imports from CBERA beneficiaries under TSUS 807.00 in 1985, with U.S. content of 68 percent for apparel and 75 percent for electronics.

- A decision rule was used to select import product groups (whether eligible for CBERA duty-free treatment or not) with a nontrivial base which exhibited either substantial relative or absolute increases in U.S. imports from the CBERA beneficiaries in 1985. The 34 3-digit SIC-based import groups selected using this rule are referred to in the study as the "significant-growth" CBERA import groups. Three of these groups are related to agricultural products and the remaining to manufactured products. In relative terms, the largest growth in imports was recorded in motor vehicles and parts, jewelry and silverware, industrial organic chemicals, special industry machinery, and farm and garden machinery. In absolute terms, the largest increases in imports corresponded to fresh fruits; jewelry and silverware; men's and boys' shirts and trousers; industrial organic chemicals; women's, girls', and infants' undergarments and coats and suits; and fresh or frozen fish.

- Six of these "significant-growth" CBERA import groups were found to supply 5 percent or more of total group U.S. imports and were identified as "world-class significant-growth" CBERA import groups. Three correspond to agricultural products (fresh fruits; vegetables and melons; fresh or frozen fish) and three to manufactured products (men's and boys' shirts and trousers; women's, girls', and infants' undergarments; and leather goods).

- Of the 45 "significant import market share" product groups examined, there were only five (sugar; cigars; men's and boys' shirts and trousers; women's, girls', and infants' undergarments; and leather cut to shapes) in which CBERA beneficiaries accounted for more than 5 percent of U.S. imports in 1985. Of these five, only U.S. imports from the CBERA beneficiaries of men's and boys' shirts and trousers and women's, girls', and infants' undergarments grew faster than imports from all sources in 1985; however, these products and most other textile and apparel products are largely excluded from duty-free treatment under the CBERA program.

- U.S. employment in several industries which produce products similar to major imports from CBERA beneficiary nations (sugar, beverages, and cigars) has declined over time or remain stagnant. The CBERA countries have traditionally been among the leading suppliers of these products to the U.S. market; however, U.S. imports of these products from the CBERA nations declined in 1985.

IV. Summary and Conclusions

During calendar year 1985, twenty-one Caribbean Basin nations or territories were designated as beneficiaries under the CBERA. Eligible imports from most of these beneficiary countries were extended unlimited duty-free treatment beginning January 1, 1984. Excluded from the program were textile and apparel items subject to textile agreements, footwear and leather products, tuna, petroleum and petroleum products, and certain watches. Included in the program, but subject to special provisions, were imports of beef and veal and sugar. During calendar year 1985, sixteen of the twenty-one beneficiary countries were eligible for duty-free treatment of these products.

The CBERA established special safeguards to domestic industries in the event that increased imports from beneficiary nations caused, or threatened to cause, injury. During calendar year 1985, there were no instances of suspension of duty-free treatment of imports from CBERA-beneficiary nations arising from the normal escape clause safeguards. Similarly, there were no suspensions pursuant to the special safeguard for perishable products nor were there any requests for such suspension.

All twenty-one CBERA-beneficiary nations were also eligible during 1985 for duty-free treatment of imports under the Generalized System of Preferences (GSP). Compared to GSP, benefits granted by CBERA are more extensive since: 1) fewer products are excluded from duty-free treatment; 2) there are no competitive-need limitations on the amount of benefits which a country can obtain; and 3) origin requirements are more liberal. CBERA beneficiaries can also take advantage of the partial duty exemption on the value of U.S.-content which is provided to imports from any source under items 806.30 and 807.00 of the Tariff Schedules of the United States. These provisions are especially meaningful for the importation of products excluded from coverage under CBERA or GSP or in situations where value-added is not sufficiently high to meet the origin requirements.

In 1985, U.S. imports from the CBERA-beneficiary nations amounted to nearly $6.7 billion, a 22.7 percent decline over 1984 imports of slightly under $8.6 billion. This decline largely reflects the downward trend in the value of crude and refined petroleum exports to the United States. About 90 percent of the nearly $2 billion decline in U.S. imports from CBERA beneficiaries in 1985 was attributable to declines in U.S. imports of petroleum products from the Netherlands Antilles and the Bahamas. Crude and refined petroleum, which accounted for nearly one-half of U.S. imports from CBERA beneficiaries in 1984, accounted for about one-third in 1985. In 1985, U.S. imports of nonpetroleum products from the CBERA-beneficiary nations dropped from their 1984 level of $4.4 billion to $4.3 billion. This 1984-85 decline of 3.2 percent in nonpetroleum imports came after two successive years of increases (17.5 percent in 1982-83 and 18.9 percent in 1983-84). Declines in two other significant basic materials, bauxite and sugar, also contributed to the decline in U.S. imports from the region.

While U.S. imports from the CBERA-beneficiary countries represent a rather insignificant (2-3 percent) and declining share of total U.S. imports, they represent, in many cases, a substantial portion (50-60 percent) of beneficiary countries export earnings. In 1985, CBERA-beneficiary countries posting gains in export sales to the U.S. included some smaller island nations (with a low volume of trade with the U.S.), Haiti, and four out of the six Central American republics.

U.S. imports from the CBERA-beneficiary nations have been limited to a rather narrow range of products. In addition to crude and refined petroleum products, other imports from the region have included fresh fruits, sugar, electronic components and accessories, fish, certain apparel items, nonferrous metals and ores, meat products, and jewelry.

In 1984, the first year of preferential tariff treatment under the CBERA, duties were paid on 53 percent of the value of imports from the beneficiary nations compared to 65 percent in 1983; by 1985, this had fallen to 44 percent. This reduction in the share of dutied imports is partially the result of duty-free treatment of additional imports provided by the CBERA. While the share of dutied imports has fallen, the average rate of duty paid on imports not benefitting from preferential tariff treatment rose from 1.3 percent in 1983 to 2.8 percent in 1985.

Most CBERA-beneficiary nations incurred an additional 3 to 8 percent of the foreign-port value of their products in sending them to the United States; however, some Central American republics which primarily export bulky or perishable agricultural products incurred costs almost double those of other CBERA nations.

Of the $6.8 billion in U.S. imports from all 27 nations eligible for CBERA benefits in 1985, $6.7 billion or 97.6 percent came from the 21 CBERA-beneficiary countries. Slightly under $2.2 billion or about 32 percent of U.S. imports from the

CBERA-eligible countries were imported MFN duty-free. Of the remaining $4.7 billion subject to duty, $1.7 billion entered duty-free under one of the special U.S. tariff programs: $548 million under tariff provisions 806.30 and 807.00, $541 million under GSP, and $498 million under CBERA; duties were paid on the remaining $3.0 billion. In 1984, the first year of operation of the CBERA, CBERA duty-free imports from the beneficiary countries surpassed those under GSP; however, in 1985, GSP duty-free imports surpassed CBERA duty-free imports.

Because the CBERA offers unlimited preferential duty treatment to a broader range of commodities than GSP, it is anticipated that over time the beneficiary nations will restructure their export baskets as they continue to develop a manufacturing base to maximize duty-free benefits of the CBERA. CBERA offers distinct advantages over GSP in several products such as agricultural products, forestry products, food products, tobacco, certain textile and apparel products, rubber products, primary metals, and electrical machinery. In the first two-years of operation, it is still too early to detect these shifts.

U.S. imports from CBERA beneficiaries under TSUS 807.00 tend to have substantially higher U.S.-content value than imports from other regions. In 1985, the U.S. content of items imported into the United States from all countries under tariff provision 807.00 was 18.4 percent; for those imports from CBERA beneficiaries, the U.S.-content share was 69.7 percent.

To gauge the impact of the CBERA on U.S. employment, 34 3-digit SIC-based import groups were identified in which imports from the CBERA beneficiary countries showed "significant growth" in 1985. In percentage terms, the largest growth in imports was recorded in motor vehicles and parts, jewelry and silverware, industrial organic chemicals, special industry machinery, and farm and garden machinery. In dollar terms, the largest increases in imports corresponded to fresh fruits; jewelry and silverware; men's and boys' shirts and trousers; industrial organic chemicals; women's, girls', and infants' undergarments and coats and suits; and fresh or frozen fish. Six of these 34 "significant-growth" CBERA import groups supplied 5 percent or more of U.S. imports. The six groups which met this criterion were identified as "world-class significant-growth" CBERA import groups. These groups were: fresh fruits; vegetables and melons; fresh or frozen fish; men's and boys' shirts and trousers; women's, girls', and infants' undergarments; and leather goods.

As another way to assess the impact of the CBERA on U.S. employment, 45 3-digit SIC-based import groups, previously identified as being "significant import market share" product groups, were examined for increases in imports from the CBERA beneficiary countries. In 1985, the CBERA beneficiaries accounted for at least five percent of total U.S. imports for each of 5 "significant import market share" product groups (sugar; cigars; men's and boys' shirts and trousers; women's, girls', and infants' undergarments; and leather cut to shapes); only with respect to men's and boys' shirts and trousers and women's, girls', and infants' undergarments did imports from CBERA-beneficiaries increase at a faster rate than imports of the same product from all sources. In 1985, U.S. imports of sugar, cigars, and leather cut to shapes from the CBERA beneficiaries all declined compared to 1984.

Seven "significant import market share" groups (sugar, beverages, cigars, steel mill products, electronic components, jewelry and silverware, and toys and sporting goods) had CBERA duty-free values over $10 million each and together accounted for $211.3 million (or 43 percent) of all CBERA duty-free imports in 1985.

During the period 1980-85, U.S. exports to the CBERA region have accounted for about 3 percent of total U.S. exports to the world. U.S. exports to the region have fluctuated from year to year, but have shown little or no growth, on average, over this period. U.S. exports to CBERA beneficiaries fell from nearly $6.0 billion in 1984 to $5.7 billion in 1984, or by 3.5 percent. While not a major customer for U.S. exports, this total represents, in many cases, a major share (30-40 percent) of the total CBERA beneficiary country imports. Except for five CBERA-beneficiary countries, U.S. exports to each of the beneficiary nations fell in 1985 compared to 1984. Leading categories of U.S. exports to these nations in 1985 were petroleum, grain, fats and oils, machinery, plastics, chemical, and electronic products.

Many of the leading categories of U.S. exports to the Caribbean Basin region are also among the leading import categories, indicating a substantial two-way flow of trade. To a large extent, this results from the extensive trade under TSUS items 806.30 and 807.00 which, for the CBERA nations, contain substantial U.S.-content value.

In 1985, the U.S. economy experienced substantial growth as the recovery continued. Employment rose sharply, by over three million jobs compared to 1984. Job growth in the service-producing sector continued at the same rapid pace as in the first two-years of the recovery, where approximately 2.9 million jobs were added. In contrast to 1984, which showed strong employment gains in the goods-producing sector (especially manufacturing), employment changes in 1985 for manufacturing and construction were mixed. Construction employment rose by about 305,000 during the year, with special trade contractors (SIC 17) showing the greatest strength. Employment in manufacturing fell from 19.4 million in 1984 to 19.3 million in 1985. Large reductions took place in computer-related industries, particularly electronic computing equipment and electronic components, including semiconductors (SIC 367). Seven other manufacturing industries had significant job losses in 1985: textiles (SIC 22), apparel (SIC 23), refined petroleum (SIC 29), leather (SIC 31), primary metals (SIC 33), nonelectrical machinery (SIC 35), and miscellaneous manufacturing (SIC 39). The continuing weakness of these industries largely reflects long-term structural adjustment problems and increased import competition. Although job losses in manufacturing were widespread, two manufacturing industries showed job gains in 1985: printing and publishing (SIC 27) and transportation equipment (SIC 37).

Ten U.S. industries, which produce goods like those in the 30 manufacturing categories for which U.S. imports from CBERA-beneficiary nations increased significantly in 1985, showed a significant decline in 1985 employment. The ten industries were: knitting mills (SIC 225); men's and boys' suits and coats (SIC 231); men's and boys' furnishings (SIC 232); women's and misses' outerwear (SIC 233); women's and children's undergarments (SIC 234); luggage (SIC 316); blast furnace and basic steel products (SIC 331); farm and garden machinery (SIC 352); household appliances (SIC 363); and radio and TV receiving equipment (SIC 365). Several of the industries showing a contraction in 1985 employment (e.g., textile and apparel industries) have been experiencing secular employment declines. Clearly, changes in employment in these industries (particularly for textiles and apparel, most of whose products are specifically excluded from duty-free treatment under the CBERA) are in response to a variety of factors and cannot be ascribed to the modest increase in imports from CBERA beneficiary nations.

Two (out of 46) "significant import market share" manufacturing industries also experienced significant growth in U.S. imports from CBERA beneficiaries and had significant CBERA duty-free imports in 1985. These industries are: blast furnace and basic steel mill products (SIC 331) and jewelry, silverware, and plated ware (SIC 391). Employment in blast furnace and basic steel mill products has fallen steadily over an extended period, while 1985 employment in jewelry, silverware, and plated ware is roughly the same as in 1982.

A definitive evaluation of the domestic employment impact of the CBERA cannot be made at this point since the trade flows with the region are small and the program is still relatively new. As the rate of economic activity in the U.S. has quickened, while the economies of the other developed and developing countries remained sluggish, the U.S. has attracted increasing levels of imports from all sources, including many of the CBERA nations. However, the dollar amount or rate of increase in imports from the CBERA nations has not been extraordinary or threatening. Increased imports from CBERA beneficiary nations of significant-growth or significant import market share products may have contributed to employment displacement in a few industries such as apparel, but most products manufactured by this industry are not eligible for CBERA preferences. The CBERA nations traditionally have been major suppliers of sugar, beverages, cigars, metallic ores, agricultural chemicals, and petroleum products to the U.S. market, but U.S. imports of these products all declined in 1985. Fresh fruits, vegetables and melons, and other agricultural products which either supplement or complement U.S. production appear to be among the largest beneficiaries of the CBERA.

The current amount and composition of CBERA exports do not pose a threat to U.S. employment. The CBERA nations are small and rather diverse, with limited natural resources and a large labor force. Traditionally, these countries have relied on exports of natural resources and agricultural products. The development of assembly operations has helped develop skills needed for further economic development and industrialization. With the current lack of an industrial infrastructure, the potential exists for extensive industrial investment, much of which would use U.S.-produced capital goods. As the region develops, it is anticipated that it will attract increasing levels of U.S. exports and will generate additional job opportunities in the U.S. On the other hand, the duty-free benefits of the CBERA offer an incentive for diversification of production and development of exports to the U.S. market. Thus, any possible employment impact of the CBERA still lies in the future.

APPENDIX D

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COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

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COMMITTEE ON WAYS AND MEANS

JOSEPH K. DOWLEY, CHIEF COUNSEL
A.L. SINGLETON, MINORITY CHIEF OF STAFF

RUFUS YERXA, SUBCOMMITTEE STAFF DIRECTOR

September 12, 1986

RECEIVED
SEP 19 1986
Ways and Means
Subcommittee on Oversight

The Honorable J. J. Pickle
Chairman
Subcommittee on Oversight
U.S. House of Representatives
1105 Longworth House Office Building
Washington, D.C. 20515

Dear Jake:

I am writing to commend you on the Subcommittee on Oversight's work in analyzing the effectiveness of the Caribbean Basin Initiative (CBI). The hearings you conducted earlier this year were most informative, and have provided the Committee on Ways and Means with valuable data and insight into the effectiveness of the CBI. The hearing you conducted raised many questions about the implementation of the CBI and suggested ways in which the Initiative could be improved. It is important that the Subcommittee continue its oversight efforts in this area.

As Chairman of the Subcommittee on Trade, I would urge you to conduct further hearings and schedule on-site visits in the Caribbean and Central America for the purpose of establishing whether the CBI has played a positive role in encouraging political stability and economic development in the region. A Congressional delegation's presence in the Caribbean and Central American area is long overdue. It is important that the Committee have firsthand information about the success and failures of the Initiative, and have an opportunity to talk face-to-face with those doing business in the area. If my schedule permits, I would hope I can join you in a trip to examine the CBI early next year.

I look forward to your favorable reply.

Sincerely,

Sam M. Gibbons

Sam M. Gibbons
Chairman

SMG/RHY1

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A.L. SINGLETON, MINORITY CHIEF OF STAFF

BETH KUNTZ, SUBCOMMITTEE STAFF DIRECTOR

January 29, 1987

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

As you know, the Subcommittee on Oversight, as part of its investigation of Caribbean Basin Initiative, recently visited five countries that are designated beneficiaries of the CBI legislation. The delegation included Committee Members Charles Rangel, Ronnie Flippo, Bill Thomas, Guy Vander Jagt and Representative Doug Bereuter of the Committee on Foreign Affairs. Administration officials, U.S. Trade Representative Clayton Yeutter and Assistant Secretary of State Elliot Abrams, accompanied the delegation and participated in meetings in each of the countries visited.

Our visit to the region consisted of meetings with the heads-of-state and their ministers of government in five countries--Jamaica, Costa Rica, Barbados, Dominican Republic and Haiti. In addition, we held a meeting with government and regional organization representatives from the East Caribbean States to discuss how the CBI affected these smaller states. We also held meetings with private sector investors and local business leaders who were taking advantage of the CBI in the above five countries. The delegation saw first-hand some of the results of the CBI legislation by visiting investment projects and talking directly with the investors.

The discussions held with the governments and the private sector were open and frank exchanges on how the CBI was operating and whether the legislation provided any additional benefits to the region. Both government and private sector individuals responded to our inquiry with some positive and some negative assessments of how CBI is working. It was noted by all the CBI governments that the products of their most efficient export industries, such as textiles and footwear, are exempt from duty-free treatment. Therefore, the CBI governments all requested that we review the "exempt list" and consider expanding duty-free treatment. Further, representatives from each country urged us to extend the CBI legislation beyond 1995 for an additional ten to fifteen years. Numerous other recommendations for improving the CBI were received from the private and public sectors. We are currently analyzing these suggestions.

Penetrating U.S. markets and overall marketing seemed to be the most difficult obstacle to trade with the U.S., even among those investors who had successfully taken advantage of CBI. Fear of further protectionist legislation was a common concern among both government officials and the private sector. These sources expressed concern that the benefits of CBI would be reduced further as Caribbean based industries become successful in exporting products to U.S. markets. The change in the duty-free treatment of ethanol, as well as the recent International Trade Commission decision in the Costa Rican cut-flowers case, indicated such a trend.

The CBI countries did note that the CBI has provided incentives for diversification into new areas, particularly agricultural products and the service industries. This diversification is occuring even where such industries cannot take advantage of the duty-free treatment provided as a result of the legislation. The Administration's Super 807 program, which provides guaranteed access levels for garments manufactured from U.S. textiles, consistently received high praise. The CBI governments encouraged the U.S. to provide guaranteed access levels for other dutiable goods.

As Chairman of the delegation, I was pleased with the frankness in the discussions both on the part of the members of the delegation and on the part of government officials and business people in the region. The Administration's input was most valuable and added to the seriousness of the fact-finding mission. I view our discussions as both useful in furthering our knowledge of the CBI program and insightful on how the CBI could be improved.

The Subcommittee will provide a formal report to the Full Committee. The report will detail of our visit to the region and elaborate on the points outlined above.

The Honorable Dan Rostenkowski
January 29, 1987
Page 3

In appreciation for your encouragement and your overall support of the Oversight Subcommittee's investigation, we are presenting you a baseball from the MacGregor Sporting Goods operations in Haiti. This product was developed for, and marketed under, the duty-free provisions of the CBI. The ball is signed by each of the Members of the delegation who participated in the CBI investigation.

Sincerely,

Jake

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/vck

FOR IMMEDIATE RELEASE
THURSDAY, JANUARY 8, 1987

PRESS RELEASE #1 - 100th CONGRESS
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1105 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D. C. 20515
TELEPHONE: (202) 225-5522

THE HONORABLE J. J. PICKLE (D., TEXAS), CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES PLANS FOR A CONGRESSIONAL OVERSIGHT DELEGATION TO THE CARIBBEAN REGION

The Honorable J. J. Pickle, (D., Texas), Chairman of the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, today announced that he will lead a Congressional oversight delegation on an official visit to five countries in the Caribbean region from January 10 through January 21, 1987. The Subcommittee trip is being made at the request of Committee Chairman Rostenkowski and Trade Subcommittee Chairman Gibbons. The delegation will be accompanied by the Honorable Clayton Yeutter, United States Trade Representative, and the Honorable Elliot Abrams, Assistant Secretary of State for Inter-American Affairs. The delegation will be meeting with high level government officials and business leaders in Jamaica, Barbados, Costa Rica, the Dominican Republic, and Haiti to discuss the impact and effectiveness of the Caribbean Basin Initiative. The delegation will also receive a briefing at the U.S. Naval Base in Guantanamo Bay, Cuba.

The Caribbean Basin Initiative ("CBI") was enacted on August 5, 1983, authorizing certain preferential trade and tax measures for designated Caribbean Basin countries and territories. As provided for under the law, the President has designated twenty-two Caribbean Basin countries and territories as eligible for unilateral duty-free treatment on U.S. import of eligible articles. Under the law, duty-free treatment is available to all products exported to the U.S. from CBI-designated countries with the exception of textiles and apparel, footwear, petroleum, leather apparel, watches and watch parts, and canned tuna fish.

As initially enacted, the CBI provides for the deduction by U.S. taxpayers of business expenses incurred in connection with attending a convention in a beneficiary CBI country and provides for the establishment of a foreign sales corporation in a beneficiary CBI country. The Tax Reform Act of 1986 provides an additional benefit allowing qualified possession source income held by the Government Development Bank of Puerto Rico to be used for investment in qualified CBI countries. These tax benefits are available only to those countries which have entered into an agreement with the United States to exchange certain tax information.

In announcing this oversight mission, Chairman Pickle stated: "Early last year, the Subcommitte on Oversight held extensive hearings to review the progress made in the Caribbean region since enactment of the CBI in 1983. Testimony received by the Subcommittee gave the CBI mixed reviews and provided suggestions for additional Congressional review and investigation. As a result, the Subcommittee plans to evaluate the progress of the CBI further by visiting the region and meeting with those who administer, and are directly affected by, the CBI legislation.

"The Congressional mission to the Caribbean region is intended to provide the Committee on Ways and Means with additional information on what benefits the law has provided businesses and individuals in the CBI beneficiary countries, whether the CBI has promoted economic development and political stability in the region, and how the CBI can be improved. Also, the Subcommittee expects to examine progress made in reaching agreements for the sharing of tax information between the U.S. and Caribbean countries, both for tax and law enforcement purposes."

For security reasons, an itinerary will not be released to the public. However, it is expected that a press release and report will be available at the conclusion of the delegation's visit.

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APPENDIX E

GAO
United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-225332

December 8, 1986

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

On November 5, 1986, you requested that we provide you with information on legislation enacted by the 99th Congress as well as rules, regulations, and decisions of U.S. agencies which could constrain the effectiveness of the Caribbean Basin Initiative (CBI) legislation enacted in 1983. Because you needed this information in early December, we did not conduct fieldwork in CBI countries, contact all potentially involved U.S. agencies, or assess the validity of potential constraints to the CBI identified by agency officials. As part of our future work, we intend to review factors constraining the effectiveness of the CBI in more depth.

BACKGROUND

The Caribbean Basin Economic Recovery Act (19 U.S.C. 2701) was enacted in August 1983 to permit eligible products from designated countries in Central America and the Caribbean to be imported into the United States duty free. This duty-free treatment was the centerpiece of the CBI proposed by the administration in 1982 to promote economic and political stability by attracting foreign and domestic investment in these countries, thereby diversifying the economies and expanding exports, particularly of non-traditional products.

In addition to the trade benefits, U.S. agencies, such as the Department of Commerce and the Agency for International Development (AID), fund various programs to facilitate business investments in CBI countries and assist the CBI countries to export their products. AID and Commerce officials emphasized that increased U.S. investment in Central America and the Caribbean and increased U.S. purchases of products from the region are essential to achieving CBI goals. The administration has established a CBI Task Force under the direction of the U.S. Trade Representative to coordinate overall U.S. CBI programs. Emphasizing the importance of the CBI, the President has directed all administration officials to provide "personal attention and the institutional support needed for success" to U.S. CBI programs.

LEGISLATIVE CONSTRAINTS

When enacted in August 1983, the Caribbean Basin Economic Recovery Act was to have provided duty-free treatment for 12 years for most Caribbean and Central American products entering the United States. Specific products, such as petroleum, textiles, and certain leather goods, were not granted duty-free treatment because of their import sensitivity. Section 423 of the Tax Reform Act of 1986 amended the 1983 CBI legislation by restricting duty-free imports of ethanol from CBI countries. According to Commerce and private sector officials, this provision threatens ethanol investments made under the CBI valued at more than $30 million and discourages new ethanol investments in the Caribbean Basin.

Officials from AID, the Departments of State and Commerce, and the Office of the U.S. Trade Representative expressed concern that new trade legislation to be considered by the 100th Congress may place further restrictions on the duty-free access under the CBI as well as restricting imports, such as textiles, which, although not eligible for duty-free treatment under the CBI, are significant export products from Central America and the Caribbean.

In addition to the amendment restricting ethanol imports, U.S. officials from the principal agencies responsible for CBI programs cited several legislative provisions, included in the Continuing Resolution for fiscal year 1987 appropriations (Public Law 99-591), which may restrict U.S. programs and activities that support the CBI. These include:

1. Section 101(b), which appropriates funds to the Department of Commerce. Language in this section bars the International Trade Administration from funding activities such as trade shows and seminars which convey the advantages of relocating U.S.

businesses overseas. It also directs the United States Travel and Tourism Administration to promote travel only to the United States and its possessions. This precludes the agency from funding policy studies or technical assistance which could benefit the tourism industry in the Caribbean Basin.

2. Section 101(f) which appropriates funds for foreign assistance and related programs. Language in this section restricts AID funding of activities involving foreign agricultural exports which could compete with U.S. production. It also restricts AID-funded activities to promote the export of certain manufactured items in direct competition with U.S. production.

These officials expressed concern that these provisions, together with the fiscal year 1987 funding decreases in AID's private sector programs, the AID and the Overseas Private Investment Corporation policies affecting citrus projects, the expected reduction of U.S. sugar quotas, and certain trade rulings affecting CBI country exports, may discourage effective CBI programs and convey the perception of a decreased U.S. commitment to the CBI.

Appendix I contains further information on legislative restrictions and agency views on their potential impact and summarizes information on U.S. government actions concerning these matters. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 7 days from the date of issue. At that time, we will send copies to cognizant congressional committees and other interested parties and make copies available to others upon request. If we can be of further assistance in this matter, please call me on 275-5790.

Sincerely yours,

Joseph E. Kelley

Joseph E. Kelley
Associate Director

Contents

	Page
APPENDIX I	5
Background	5
Restrictions on the CBI	5
Other agency actions and rulings	10
Scope and methodology	11

ABBREVIATIONS

AID	Agency for International Development
CBI	Caribbean Basin Initiative
OPIC	Overseas Private Investment Corporation
USTTA	United States Travel and Tourism Administration

LEGISLATIVE AND AGENCY ACTIONS RELATING TO THE CARIBBEAN BASIN INITIATIVE

BACKGROUND

The Caribbean Basin Economic Recovery Act (19 U.S.C. 2701) permits eligible products from designated countries in Central America and the Caribbean to be imported into the United States duty free. The CBI duty-free treatment was implemented in January 1984. Recent reports by the Department of Labor and the International Trade Commission indicate that the impact of the trade provisions on U.S. industries, consumers, and labor have been minimal. Furthermore, available data shows that CBI country exports to the United States have not grown as expected and actually decreased by 19 percent from 1984 to 1985. According to the Department of State, this drop occurred largely because of depressed prices and decreased demand for traditional CBI exports such as petroleum, sugar, and bauxite; however, increased levels of non-traditional exports, a primary goal of the CBI, have occurred in products such as fruit juices, diamonds, precious metals, and ethanol.

Because the CBI is a long-term program, Commerce, State, and AID officials cautioned against using existing trade data to measure its effectiveness. These officials acknowledge that the CBI has not met expectations, and, according to the Deputy Administrator of AID, results have been disappointing.

RESTRICTIONS ON THE CBI

Various executive branch officials identified trade and other legislative provisions which could restrict the CBI. These include an amendment affecting CBI trade legislation and language in the fiscal year 1987 Continuing Resolution (Public Law 99-591) which appears to restrict CBI-related programs of the Department of Commerce and AID. Further, because of fiscal year 1987 appropriation levels, AID said that its projects to encourage private sector activity in the CBI countries will have to be reduced.

Trade Restrictions

The Caribbean Basin Economic Recovery Act authorized duty-free treatment for most products imported into the United States from designated Caribbean Basin countries but imposed significant restrictions on other types of products; for example, petroleum, virtually all textiles, and certain leather products were not eligible for duty-free treatment. In addition, the legislation required that at least 35 percent of the product value stem from materials and/or labor from eligible CBI countries.

Because of the potential adverse impact on U.S. ethanol producers, an amendment was added to restrict duty-free imports of ethanol from CBI countries. This amendment, included in section 423 of the Tax Reform Act of 1986, requires that to receive duty-free entry into the United States after January 1, 1987, ethanol from CBI countries must be wholly fermented and dehydrated in a CBI country or the local content used in the dehydration process must be gradually increased to 75 percent over a 3-year period. According to Commerce and private sector officials, this amendment threatens existing ethanol investments in CBI countries valued at more than $30 million and discourages new ethanol investment from taking place. The ethanol industry in the Caribbean Basin currently dehydrates alcohol, much of which has been imported from outside the region. Performing the fermentation process in the region as required by the amendment will, according to Commerce officials, substantially increase costs.

U.S. and private sector officials told us that a degree of certainty regarding access to U.S. markets was crucial to business investment decisions in the Caribbean Basin. For this reason, they believe that the symbolic effect of amending the CBI duty-free provisions may also be damaging. According to executive branch officials, this amendment could be interpreted as a retreat from the U.S. commitment to the CBI and may serve as precedent for future legislation which might again modify "the rules of the game."

Officials from AID, State, Commerce, and the Office of the U.S. Trade Representative pointed out that some trade-related bills were introduced in the 99th Congress (but not enacted) to help reduce U.S. trade deficits by restricting imports. For example, Congress passed a bill entitled the "Textile and Apparel Trade Enforcement Act of 1985" which would have established ceilings on U.S. textile imports from the CBI countries and other developing countries. This bill was vetoed by the President and the Congress did not override the President's veto. Although not provided duty-free treatment under the CBI legislation, textile products, according to AID and Commerce officials, are important exports from the Caribbean Basin, totaling $663 million in 1985, and have substantial growth potential.

Department of Commerce

Commerce's International Trade Administration sponsors seminars, trade shows, and other activities to disseminate information on CBI trade opportunities and to promote U.S. investment in the CBI region. According to Commerce officials, these activities may be restricted by Section 101(b) of the Continuing Resolution. Language in this section prohibits the International Trade Administration from using fiscal year 1987 appropriated funds for

> "activities associated with conferences, trade shows, expositions, and/or seminars which feature or convey the advantages of relocating U.S. industries, manufacturing and/or assembly plants, or companies, in a foreign country."

In clarifying this provision, the conferees stated that they opposed "any government support of projects designed to attract U.S. companies to relocate outside the United States."

Officials of the International Trade Administration told us they were not certain how this new provision will affect their CBI-related activities, but that it could limit their funding of and participation in some promotional activities.

Commerce officials also cited language in Section 101(b) of the Continuing Resolution regarding tourism promotion as another example of a legislative constraint to the CBI. The U.S. Travel and Tourism Administration (USTTA) within the Department of Commerce promotes travel and tourism within the United States. A USTTA official told us that at the request of the CBI Task Force, USTTA recently completed a study which suggested ways for the CBI countries to derive more economic benefit from tourism. According to USTTA, congressional concern over this study resulted in fiscal year 1987 appropriations legislation specifying that USTTA activities are to be directed to promoting travel only to the United States and its possessions. Explanatory language accompanying the legislation states that "...funding available to USTTA is not to be used for policy studies or technical assistance to promote travel to any destination other than the United States and its possessions." According to Commerce and AID officials, this prohibition is significant because (1) tourism incentives were included in the CBI legislation, and (2) tourism offers CBI countries potential for increased foreign exchange earnings.

Agency for International Development

According to AID, its role in the CBI is to (1) promote economic and financial stability and an environment conducive to private investment in CBI countries, (2) encourage production, trade, and investment in non-traditional exports, and (3) enhance management and marketing capacities of host-country business communities. AID indicated that it had funded over 75 projects in Central America and the Caribbean in support of CBI objectives from fiscal years 1983 to 1985. These projects have a planned cost of over $652 million, including $342 million to promote industrial and agricultural investments and exports.

AID officials told us that two portions of Section 101(f) of the Continuing Resolution may constrain AID funding of certain CBI-related activities. Section 558 of the general provisions applying to AID's fiscal year 1987 appropriations restricts AID from funding activities "in connection with the growth or production in a foreign country of an agricultural commodity for export which would compete with a similar commodity grown or produced in the United States."[1]

Funding of research activities which benefit American producers is permitted along with activities designed to increase food security in developing countries provided they will not have a significant impact on U.S. agricultural exports. According to AID, the limitation on AID activities was meant to apply to agricultural exports that would directly compete with U.S. exports or that could reasonably be expected to cause substantial injury to U.S. exports.

In September 1986, AID directed its field missions to examine proposed projects for increasing production of particular commodities for export to determine if that increase would have a significant impact on U.S. exports. Further, AID said that in considering new project proposals, it "will regard the agricultural export dimension of all projects as an important policy issue" and that it "does not intend to support production of agricultural commodities for export that are likely to have a significant impact on competing U.S. exports."

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[1] Section 209 of the Urgent Supplemental Appropriations Act (Public Law 99-349), enacted in July 1986, contained identical language, and is commonly referred to as the Bumpers amendment.

A second amendment, Section 559 of the general provisions on AID's fiscal year 1987 appropriation (generally referred to as the Lautenberg amendment), prohibits AID from providing funds to

> "(1) procure directly feasibility studies or prefeasibility studies for, or project profiles of potential investment in, the manufacture, for export to the United States or to third country markets in direct competition with the United States exports, of import-sensitive articles...; or (2) to assist directly in the establishment of facilities designed for the manufacture, for export to the United States or to third country markets in direct competition with United States exports of import-sensitive articles...."

As of late November 1986, AID was studying the ramifications of the Lautenberg amendment. According to AID, the main products considered import-sensitive are textiles, apparel, footwear, handbags, luggage, and certain leather goods. AID told us that it had identified two projects in CBI countries which could be perceived as providing support for exports to the United States of import-sensitive products.

AID officials told us in November 1986 that the impact of the Bumpers and Lautenberg amendments on AID programs in support of the CBI was uncertain, but they feared that the symbolic impact may be substantial. AID staff told us that, in view of these amendments, they would be much more cautious in designing and implementing projects. They viewed the amendments as potential constraints to the success of their private sector programs in the Caribbean Basin region. Furthermore, they maintained that the passage of these amendments may raise questions in the region about U.S. commitment to the CBI and could discourage potential business activity in CBI countries.

In addition to the recent Bumpers and Lautenberg amendments, AID explained that a long-standing agency policy affects its CBI-related activities. In 1978, AID determined that because of potential injury to U.S. producers, AID should examine all proposed projects involving the production, processing, or marketing of sugar, palm oil or citrus for export and should finance such projects only when "their development rationale is strong and their likely impact on U.S. producers is low." As a result of this policy, AID indicated it has not funded projects for these types of exports.

In addition to legislative actions and internal policies, AID officials told us that reductions in the agency's fiscal year

1987 funding levels may also constrain CBI-related programs. As of late November 1986, AID had not reported how it would allocate its overall assistance resources. However, AID emphasized that the fiscal year 1987 appropriation for the "Special Development Account," from which most private-sector development projects are funded, was 35 percent less than requested and 15 percent less than in fiscal year 1986. According to AID's Deputy Administrator, overall funding reductions, particularly in the private sector programs, will necessitate reducing CBI-related programs. For example, fiscal year 1987 funds available for private sector activities in the Caribbean could be as much as 50 percent less than fiscal year 1986 levels. AID is currently identifying proposed projects in the CBI region that will be deferred or cancelled as a result of the budget reductions.

Overseas Private Investment Corporation

The Overseas Private Investment Corporation (OPIC) is a U.S. government agency established to encourage and facilitate private U.S. investment in developing countries by providing loans and political risk and loan guaranty insurance. AID and Commerce officials identified legislation introduced in the 99th Congress as having affected an OPIC decision involving citrus investments in the Caribbean Basin. According to AID and Commerce, certain CBI countries have the potential to expand citrus exports to the United States. OPIC has historically not assisted citrus projects because of their potential impact on the U.S. citrus industry. However, OPIC decided in early 1986 to consider support to projects involving U.S. imports of frozen orange juice after conducting a 5-year study showing U.S. producers' interest in making investments in CBI countries and that assisting such investments would not adversely affect the domestic industry. In March 1986, OPIC reversed its decision to assist citrus projects after legislation was introduced in both the House and Senate to prohibit OPIC from providing such assistance. An official from a U.S. citrus company with an investment in the Caribbean told us that without OPIC insurance, U.S. businesses planning citrus projects may be discouraged from investing.

OTHER AGENCY ACTIONS AND RULINGS

Officials we interviewed pointed out that certain U.S. agency actions can conflict with the CBI goal of increasing U.S. imports from beneficiary countries. At a recent conference on CBI issues, government officials from the Dominican Republic and Costa Rica emphasized two specific U.S. government actions, affecting sugar and cut flowers, which they believe will constrain Caribbean exports to the United States. AID and Department of State officials also told us that these actions, summarized below, could have significant impacts on the affected countries.

Anticipated reduction in 1987 U.S. sugar quotas

According to State, new quotas for U.S. sugar imports for 1987, to be announced by the Department of Agriculture in December 1986, may be reduced substantially. The President of the Dominican Republic said in November 1986 that Dominican sugar sales to the United States have accounted for more than 30 percent of the country's foreign exchange earnings and that a reduction in allowable sugar exports to the United States could cause economic hardship as well as social and political instability.

Preliminary determinations that Costa Rica is violating U.S. trade laws in exporting certain cut flowers to the United States

In October 1986, the International Trade Administration issued two preliminary rulings finding that Costa Rica is subsidizing exports of certain cut flowers and is selling them to the United States at less than fair value. Commerce officials told us that final rulings, scheduled for January 1987, may result in Costa Rican flower exporters having to pay a duty of 25 percent or more on these exports to the United States, which are currently duty free under the CBI. Costa Rica's Minister of Foreign Commerce indicated that export incentives are part of Costa Rica's overall plan to increase exports to the United States under the CBI. The Minister of Foreign Commerce added that the rulings have created uncertainty about the duty-free status of all Costa Rica's non-traditional exports. AID officials told us that these rulings may discourage investments in export ventures in the country. The International Trade Commission noted that the future of the cut flower industry in the CBI region which had been promising was now uncertain because of these pending cases.

SCOPE AND METHODOLOGY

We met with representatives of the principal U.S. agencies responsible for CBI-related programs including the Office of the U.S. Trade Representative; the Departments of State, Commerce, and Labor; AID; the Trade and Development Program; OPIC; and the International Trade Commission and reviewed documents pertaining to their CBI-related programs. We also used information obtained as part of our September 8, 1986 report to you on Department of

Commerce data on CBI-related business activity.[2] In addition, we obtained the publicly expressed views of public and private sector officials from the United States and the Caribbean Basin. Because of time constraints, we did not perform fieldwork in CBI countries, contact all potentially affected U.S. agencies, or request agency comments on this fact sheet. We conducted our work in accordance with generally accepted government auditing standards.

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[2] Caribbean Basin Initiative: Need for More Reliable Data on Business Activity Resulting From the Initiative (GAO/NSIAD-86-201BR).

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APPENDIX F

The following tables show the calculated duties collected in 1982-86 for U.S. imports from Jamaica, Costa Rica, Barbados, and Dominican Republic, and import duties paid on dutiable commodities on all CBI eligible countries, as reported by the U.S. Department of Commerce.

U.S. IMPORTS FROM MISC.DES. CBI COUNTRIES (DUTIES COLLECTED)
U.S. imports for consumption

(Calculated duties, in thousands of dollars)

Country/Commodity	1982	1983	1984	1985	1986
Jamaica					
~~B.~~ PETROLEUM & PETRO PRODUCTS	0	13	10	13	55
C. TEXTILES & APPAREL	2,578	3,206	6,539	12,310	20,706
D. FOOTWEAR	0	0	1/	1/	0
E. GLOVES	0	4	0	4	0
F. LUGGAGE & FLATGOODS	116	135	134	105	95
Total	2,695	3,359	6,683	12,431	20,856

U.S. IMPORTS FROM MISC.DES. CBI COUNTRIES (DUTIES COLLECTED)
U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Country/Commodity	1982	1983	1984	1985	1986
Costa Rica					
B. PETROLEUM & PETRO PRODUCTS	0	1	0	1/	19
C. TEXTILES & APPAREL	13,153	18,158	21,014	23,227	32,076
D. FOOTWEAR	188	330	159	91	98
E. GLOVES	1/	0	0	8	0
F. LUGGAGE & FLATGOODS	8	8	3	18	16
G. LEATHER APPAREL	1/	1/	1/	0	1/
Total	13,350	18,496	21,176	23,343	32,209

U.S. IMPORTS FROM MISC.DES. CBI COUNTRIES (DUTIES COLLECTED)
U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Country/Commodity	1982	1983	1984	1985	1986
Barbados					
B. PETROLEUM & PETRO PRODUCTS	1	0	0	0	1/
C. TEXTILES & APPAREL	5,155	6,466	3,506	7,051	3,464
D. FOOTWEAR	0	0	0	1	20
E. GLOVES	404	734	932	992	1,055
F. LUGGAGE & FLATGOODS	1	1/	0	6	1/
Total	5,561	7,201	4,438	8,050	4,540

U.S. IMPORTS FROM MISC.DES. CBI COUNTRIES (DUTIES COLLECTED)
U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Country/Commodity	1982	1983	1984	1985	1986
Dominican Republic					
C. TEXTILES & APPAREL-----	30,543	35,498	42,032	50,313	64,239
D. FOOTWEAR---------------	43	36	249	97	177
F. LUGGAGE & FLATGOODS----	735	547	644	465	714
G. LEATHER APPAREL--------	102	91	95	82	110
Total---------------------	31,422	36,172	43,020	50,957	65,240

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption

(Calculated duties, in thousands of dollars)

Commodity/Country	1982	1983	1984	1985	1986
A. CANNED TUNA					
DESIGNATED:					
Other Designated:					
Panama	0	1	0	0	0
Total	0	1	0	0	0
Total Designated:	0	1	0	0	0
TOTAL CBI	0	1	0	0	0

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Commodity/Country	1982	1983	1984	1985	1986
B. PETROLEUM & PETRO PRODUCTS					
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua	0	4	0	0	0
Barbados	1	0	0	0	1/
Belize	0	0	1/	0	0
Jamaica	0	13	10	13	55
Trinidad and Tobago	5,762	4,631	4,176	4,180	3,923
Total	5,763	4,649	4,186	4,192	3,979
CACM Except Nicaragua:					
Costa Rica	0	1	0	1/	19
El Salvador	0	1	1/	1/	0
Guatemala	147	181	109	64	162
Total	147	183	109	64	181
Other Designated:					
Aruba	0	0	0	0	1/
Bahamas	2,788	5,144	3,787	1,443	883
British Virgin Islands	0	0	0	31	0
Honduras	0	1/	0	0	5
Neth Antilles	6,543	7,416	6,258	3,865	1,084
Neth Antilles	0	0	0	0	763
Panama	13	84	78	137	43
Total	9,344	12,645	10,123	5,475	2,779
Total Designated:	15,253	17,476	14,418	9,731	6,938
NON-DESIGNATED:					
Cayman Islands	0	2	2	1	0
Total Undesignated:	0	2	2	1	0
TOTAL CBI	15,253	17,479	14,420	9,733	6,938

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES

U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Commodity/Country	1982	1983	1984	1985	1986
C. TEXTILES & APPAREL					
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua	1,411	1,825	1,764	1,583	1,343
Barbados	5,155	6,466	3,506	7,051	3,464
Belize	1,049	1,116	2,277	2,263	1,985
Dominica	64	40	1/	25	28
Grenada	2	1	1	47	27
Jamaica	2,578	3,206	6,539	12,310	20,706
Montserrat	1	13	11	68	21
St Christopher-Nevis	823	1,095	1,863	1,463	1,944
St Lucia	578	812	1,158	2,157	1,688
St Vincent and Grenadines	303	530	416	957	468
Trinidad and Tobago	69	1/	9	7	4
Total	12,031	15,106	17,546	27,931	31,677
CACM Except Nicaragua:					
Costa Rica	13,153	18,158	21,014	23,227	32,076
El Salvador	3,660	2,808	2,784	3,182	3,566
Guatemala	740	1,251	2,644	2,545	4,026
Total	17,553	22,217	26,442	28,954	39,667
Other Designated:					
Bahamas	1	4	5	8	2
British Virgin Islands	10	1	7	1	0
Dominican Republic	30,543	35,498	42,032	50,313	64,238
Haiti	18,273	20,965	22,851	28,307	27,646
Honduras	4,277	4,088	4,607	5,493	7,138
Neth Antilles	1/	9	9	47	23
Neth Antilles	0	0	0	0	1
Panama	792	1,809	3,609	3,080	6,096
Total	53,897	62,374	73,122	87,249	105,146
Total Designated:	83,481	99,697	117,108	144,133	176,491
NON-DESIGNATED:					
Anguilla	0	0	0	0	4
Cayman Islands	1	0	0	2	4
Guyana	1,448	1,281	423	131	187
Nicaragua	341	0	3	12	4
Suriname	0	0	1	71	15
Turks and Caicos Islands	0	13	3	1/	2

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Commodity/Country	1982	1983	1984	1985	1986
C. TEXTILES & APPAREL					
NON-DESIGNATED:					
Total Undesignated:-----	1,790	1,294	430	216	215
TOTAL CBI-----------------	85,271	100,991	117,538	144,349	176,706

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Commodity/Country	1982	1983	1984	1985	1986
D. FOOTWEAR					
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua	0	1/	0	2	0
Barbados	0	0	0	1	20
Belize	0	0	0	24	24
Dominica	0	0	0	1/	0
Jamaica	0	0	1/	1/	0
Montserrat	0	0	0	1/	0
St Christopher-Nevis	0	0	5	24	1/
St Lucia	0	0	0	12	16
Total	0	1/	5	64	60
CACM Except Nicaragua:					
Costa Rica	188	330	159	91	98
El Salvador	3	53	74	148	259
Guatemala	52	23	72	23	62
Total	243	406	305	262	419
Other Designated:					
Bahamas	0	2	1/	16	22
Dominican Republic	43	36	249	97	177
Haiti	1,076	837	458	644	550
Honduras	1	1/	2	8	1/
Neth Antilles	0	0	10	1/	5
Neth Antilles	0	0	0	0	6
Panama	13	10	23	17	9
Total	1,132	885	741	781	768
Total Designated:	1,376	1,291	1,051	1,108	1,247
NON-DESIGNATED:					
Guyana	0	0	1	0	2
Nicaragua	0	0	1/	1/	2
Suriname	1	1/	26	5	270
Total Undesignated:	1	1/	27	5	274
TOTAL CBI	1,377	1,291	1,078	1,113	1,521

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Commodity/Country	1982	1983	1984	1985	1986
E. GLOVES					
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Barbados	404	734	932	992	1,055
Jamaica	0	4	0	4	0
St Vincent and Grenadines	14	0	5	0	4
Total	419	738	936	996	1,059
CACM Except Nicaragua:					
Costa Rica	1/	0	0	8	0
El Salvador	1	0	0	[illegible]	2
Guatemala	0	0	10	120	65
Total	2	0	10	128	67
Other Designated:					
Haiti	92	88	60	157	146
Honduras	0	0	0	1	0
Neth Antilles	0	50	0	0	0
Panama	10	0	0	3	2
Total	102	138	60	161	147
Total Designated:	522	877	1,007	1,285	1,274
TOTAL CBI	522	877	1,007	1,285	1,274

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Commodity/Country	1982	1983	1984	1985	1986
F. LUGGAGE & FLATGOODS					
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua	0	0	0	1	2
Barbados	1	1/	0	6	1/
Dominica	0	0	0	4	9
Jamaica	116	135	134	105	95
Montserrat	2	1	0	1	1/
St Christopher-Nevis	0	0	0	1	0
Trinidad and Tobago	0	0	1/	0	8
Total	119	136	134	119	114
CACM Except Nicaragua:					
Costa Rica	8	8	3	18	16
El Salvador	1/	1/	1/	1	1/
Guatemala	2	3	3	5	10
Total	10	11	6	23	26
Other Designated:					
Bahamas	0	0	1	0	0
Dominican Republic	735	547	644	465	714
Haiti	1,097	925	926	856	759
Honduras	1/	1/	0	0	0
Neth Antilles	1/	1/	1/	0	0
Panama	1	1/	4	13	10
Total	1,833	1,474	1,575	1,334	1,483
Total Designated:	1,962	1,621	1,714	1,476	1,624
NON-DESIGNATED:					
Cayman Islands	0	0	0	1	1/
Guyana	1/	1/	0	1	0
Nicaragua	0	0	1/	0	0
Suriname	0	0	1/	0	0
Total Undesignated:	1/	1/	1/	2	1/
TOTAL CBI	1,962	1,621	1,714	1,478	1,624

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Commodity/Country	1982	1983	1984	1985	1986
G. LEATHER APPAREL					
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua----------------	0	0	0	1/	1/
Grenada----------------	0	0	0	0	1/
Montserrat-------------	0	0	0	1/	1/
Total------------------	0	0	0	1/	1/
CACM Except Nicaragua:					
Costa Rica-------------	1/	1/	1/	0	1/
Guatemala--------------	0	0	0	1/	1/
Total------------------	1/	1/	1/	1/	1/
Other Designated:					
Dominican Republic-----	102	91	95	82	110
Haiti------------------	12	36	41	4	1/
Neth Antilles----------	0	0	0	1/	0
Panama-----------------	35	0	0	1	0
Total------------------	150	127	135	87	110
Total Designated:-------	150	127	135	88	110
NON-DESIGNATED:					
Cayman Islands----------	0	0	0	0	1/
Total Undesignated:-----	0	0	0	0	1/
TOTAL CBI----------------	150	127	135	88	110

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Commodity/Country	1982	1983	1984	1985	1986
Total					
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua	1,411	1,829	1,764	1,587	1,346
Barbados	5,561	7,201	4,438	8,050	4,540
Belize	1,049	1,116	2,277	2,287	2,009
Dominica	64	40	1/	29	34
Grenada	2	1	1	47	27
Jamaica	2,695	3,359	6,683	12,431	20,856
Montserrat	3	14	11	69	21
St Christopher-Nevis	823	1,095	1,868	1,489	1,944
St Lucia	578	812	1,158	2,169	1,704
St Vincent and Grenadines	317	530	421	957	472
Trinidad and Tobago	5,831	4,631	4,185	4,187	3,936
Total	18,331	20,629	22,806	33,302	36,890
CACM Except Nicaragua:					
Costa Rica	13,350	18,496	21,178	23,343	32,209
El Salvador	3,664	2,863	2,858	3,331	3,827
Guatemala	941	1,457	2,838	2,758	4,325
Total	17,955	22,817	26,871	29,431	40,361
Other Designated:					
Aruba	0	0	0	0	1/
Bahamas	2,789	5,150	3,794	1,466	907
British Virgin Islands	10	1	7	31	0
Dominican Republic	31,422	36,172	43,020	50,957	65,240
Haiti	20,551	22,852	24,336	29,968	29,101
Honduras	4,278	4,089	4,609	5,502	7,143
Neth Antilles	6,544	7,475	6,277	3,912	1,111
Neth Antilles	0	0	0	0	770
Panama	863	1,905	3,714	3,250	6,160
Total	66,458	77,643	85,757	95,087	110,433
Total Designated:	102,744	121,089	135,434	157,820	187,684
NON-DESIGNATED:					
Anguilla	0	0	0	0	4
Cayman Islands	1	2	2	5	4
Guyana	1,448	1,281	424	132	189
Nicaragua	341	0	3	12	6
Suriname	1	1/	27	76	285

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Calculated duties, in thousands of dollars)

Commodity/Country	1982	1983	1984	1985	1986
Total					
NON-DESIGNATED:					
Turks and Caicos Islands	0	13	3	1/	2
Total Undesignated:-----	1,791	1,296	459	225	490
TOTAL CBI---------------	104,535	122,386	135,893	158,045	188,173

1/ Value or quantity less than 0.5.
SOURCE: Compiled from official statistics of the U.S. Department of Commerce.

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption

(Percent of calculated duties)

Commodity/Country	1982	1983	1984	1985	1986
A. CANNED TUNA					
Total	-	100.0000	-	-	-
DESIGNATED:					
Other Designated:					
Panama	-	100.0000	-	-	-
Total	-	100.0000	-	-	-
Total Designated:	-	100.0000	-	-	-
TOTAL CBI	-	100.0000	-	-	-

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Percent of calculated duties)

Commodity/Country	1982	1983	1984	1985	1986
B. PETROLEUM & PETRO PRODUCTS					
Total	100.0000	100.0000	100.0000	100.0000	100.0000
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua	-	.0244	-	-	-
Barbados	.0048	-	-	-	.0014
Belize	-	-	.0003	-	-
Jamaica	-	.0762	.0697	.1297	.7958
Trinidad and Tobago	37.7741	26.4956	28.9583	42.9456	56.5479
Total	37.7789	26.5963	29.0284	43.0753	57.3451
CACM Except Nicaragua:					
Costa Rica	-	.0039	-	.0002	.2687
El Salvador	-	.0067	.0028	.0002	-
Guatemala	.9634	1.0355	.7537	.6580	2.3393
Total	.9634	1.0461	.7565	.6584	2.6080
Other Designated:					
Aruba	-	-	-	-	.0034
Bahamas	18.2764	29.4318	26.2641	14.8243	12.7279
British Virgin Islands	-	-	-	.3142	-
Honduras	-	.0010	-	-	.0724
Neth Antilles	42.8980	42.4279	43.3974	39.7067	15.6178
Neth Antilles	-	-	-	-	11.0023
Panama	.0833	.4833	.5409	1.4058	.6231
Total	61.2577	72.3439	70.2024	56.2509	40.0469
Total Designated:	100.0000	99.9862	99.9873	99.9847	100.0000
NON-DESIGNATED:					
Cayman Islands	-	.0138	.0127	.0153	-
Total Undesignated:	-	.0138	.0127	.0153	-
TOTAL CBI	100.0000	100.0000	100.0000	100.0000	100.0000

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Percent of calculated duties)

Commodity/Country	1982	1983	1984	1985	1986
C. TEXTILES & APPAREL					
Total	100.0000	100.0000	100.0000	100.0000	100.0000
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua	1.6542	1.8072	1.5006	1.0966	.7601
Barbados	6.0452	6.4028	2.9831	4.8847	1.9605
Belize	1.2299	1.1047	1.9373	1.5680	1.1236
Dominica	.0751	.0397	.0002	.0174	.0145
Grenada	.0020	.0010	.0005	.0326	.0155
Jamaica	3.0237	3.1748	5.5636	8.5277	11.7179
Montserrat	.0010	.0132	.0092	.0468	.0121
St Christopher-Nevis	.9647	1.0847	1.5853	1.0137	1.0999
St Lucia	.6780	.8042	.9854	1.4943	.9552
St Vincent and Grenadines	.3549	.5252	.3540	.6628	.2651
Trinidad and Tobago	.0806	.0002	.0075	.0049	.0023
Total	14.1092	14.9577	14.9267	19.3495	17.9267
CACM Except Nicaragua:					
Costa Rica	15.4255	17.9797	17.8782	16.0906	18.1521
El Salvador	4.2917	2.7809	2.3685	2.2044	2.0180
Guatemala	.8676	1.2383	2.2495	1.7633	2.2781
Total	20.5847	21.9990	22.4962	20.0582	22.4482
Other Designated:					
Bahamas	.0017	.0037	.0047	.0054	.0012
British Virgin Islands	.0122	.0008	.0061	.0006	-
Dominican Republic	35.8187	35.1498	35.7606	34.8550	36.3538
Haiti	21.4297	20.7594	19.4415	19.6100	15.6455
Honduras	5.0161	4.0480	3.9198	3.8051	4.0394
Neth Antilles	.0003	.0088	.0078	.0327	.0131
Neth Antilles	-	-	-	-	.0004
Panama	.9284	1.7917	3.0708	2.1340	3.4500
Total	63.2071	61.7623	62.2113	60.4428	59.5033
Total Designated:	97.9011	98.7190	99.6341	99.8505	99.8781
NON-DESIGNATED:					
Anguilla	-	-	-	-	.0021
Cayman Islands	.0010	-	-	.0012	.0021
Guyana	1.6977	1.2683	.3600	.0909	.1057
Nicaragua	.4002	-	.0027	.0081	.0024
Suriname	-	-	.0008	.0492	.0085
Turks and Caicos Islands	-	.0127	.0025	.0001	.0010

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Percent of calculated duties)

Commodity/Country	1982	1983	1984	1985	1986
C. TEXTILES & APPAREL					
NON-DESIGNATED:					
Total Undesignated:-----	2.0989	1.2810	0.3659	0.1495	0.1219
TOTAL CBI-----------------	100.0000	100.0000	100.0000	100.0000	100.0000

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Percent of calculated duties)

Commodity/Country	1982	1983	1984	1985	1986
D. FOOTWEAR					
Total	100.0000	100.0000	100.0000	100.0000	100.0000
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua	-	.0037	-	.1962	-
Barbados	-	-	-	.1187	1.3407
Belize	-	-	-	2.1282	1.5497
Dominica	-	-	-	.0208	-
Jamaica	-	-	.0181	.0084	-
Montserrat	-	-	-	.0059	-
St Christopher-Nevis	-	-	.4324	2.1839	.0289
St Lucia	-	-	-	1.0631	1.0289
Total	-	.0037	.4505	5.7254	3.9482
CACM Except Nicaragua:					
Costa Rica	13.6413	25.5646	14.7473	8.1900	6.4302
El Salvador	.2189	4.1123	6.8216	13.3026	17.0180
Guatemala	3.8117	1.7543	6.6873	2.0884	4.0769
Total	17.6719	31.4312	28.2562	23.5811	27.5251
Other Designated:					
Bahamas	-	.1565	.0074	1.4150	1.4218
Dominican Republic	3.1096	2.8073	23.0807	8.7357	11.6321
Haiti	78.1293	64.8300	42.4590	57.8508	36.1918
Honduras	.0460	.0277	.2041	.7105	.0164
Neth Antilles	-	-	.8911	.0144	.3119
Neth Antilles	-	-	-	-	.3852
Panama	.9645	.7408	2.1528	1.4864	.5699
Total	82.2495	68.5622	68.7952	70.2127	50.5290
Total Designated:	99.9214	99.9971	97.5019	99.5192	82.0023
NON-DESIGNATED:					
Guyana	-	-	.1091	-	.1184
Nicaragua	-	-	.0050	.0033	.1030
Suriname	.0786	.0029	2.3840	.4775	17.7762
Total Undesignated:	.0786	.0029	2.4981	.4308	17.9977
TOTAL CBI	100.0000	100.0000	100.0000	100.0000	100.0000

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Percent of calculated duties)

Commodity/Country	1982	1983	1984	1985	1986
E. GLOVES					
Total	100.0000	100.0000	100.0000	100.0000	100.0000
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Barbados	77.4376	83.7375	92.5177	77.2366	82.8528
Jamaica	-	.4928	-	.2802	-
St Vincent and Grenadines	2.7254	-	.4708	-	.2927
Total	80.1630	84.2303	92.9885	77.5168	83.1456
CACM Except Nicaragua:					
Costa Rica	.0329	-	-	.5899	-
El Salvador	.2579	-	-	-	.1422
Guatemala	-	-	1.0083	9.3631	5.1379
Total	.2908	-	1.0083	9.9529	5.2801
Other Designated:					
Haiti	17.6281	10.0808	6.0033	12.1966	11.4510
Honduras	-	-	-	.0927	-
Neth Antilles	-	5.6889	-	-	-
Panama	1.9181	-	-	.2410	.1233
Total	19.5462	15.7697	6.0033	12.5303	11.5743
Total Designated:	100.0000	100.0000	100.0000	100.0000	100.0000
TOTAL CBI	100.0000	100.0000	100.0000	100.0000	100.0000

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Percent of calculated duties)

Commodity/Country	1982	1983	1984	1985	1986
F. LUGGAGE & FLATGOODS					
Total	100.0000	100.0000	100.0000	100.0000	100.0000
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua	-	-	-	.1003	.1386
Barbados	.0315	.0180	-	.3929	.0108
Dominica	-	-	-	.2602	.5384
Jamaica	5.9222	8.3377	7.7986	7.1363	5.8200
Montserrat	.0992	.0444	-	.0635	.0033
St Christopher-Nevis	-	-	-	.0804	-
Trinidad and Tobago	-	-	.0018	-	.5093
Total	6.0529	8.4001	7.8004	8.0336	7.0204
CACM Except Nicaragua:					
Costa Rica	.4158	.4738	.1798	1.1940	.9998
El Salvador	.0084	.0260	.0070	.0382	.0139
Guatemala	.0934	.1860	.1532	.3232	.6145
Total	.5177	.6858	.3400	1.5554	1.6282
Other Designated:					
Bahamas	-	-	.0536	-	-
Dominican Republic	37.4471	33.7382	37.5674	31.4482	43.9736
Haiti	55.9338	57.0958	54.0037	57.9289	46.7120
Honduras	.0102	.0295	-	-	-
Neth Antilles	.0032	.0263	.0047	-	-
Panama	.0296	.0229	.2217	.8665	.6408
Total	93.4240	90.9127	91.8510	90.2436	91.3264
Total Designated:	99.9946	99.9986	99.9914	99.8326	99.9750
NON-DESIGNATED:					
Cayman Islands	-	-	-	.0986	.0250
Guyana	.0054	.0014	-	.0689	-
Nicaragua	-	-	.0065	-	-
Suriname	-	-	.0021	-	-
Total Undesignated:	.0054	.0014	.0086	.1674	.0250
TOTAL CBI	100.0000	100.0000	100.0000	100.0000	100.0000

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Percent of calculated duties)

Commodity/Country	1982	1983	1984	1985	1986
G. LEATHER APPAREL					
Total	100.0000	100.0000	100.0000	100.0000	100.0000
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua	-	-	-	.0526	.1425
Grenada	-	-	-	-	.0172
Montserrat	-	-	-	.1200	.0291
Total	-	-	-	.1726	.1888
CACM Except Nicaragua:					
Costa Rica	.3309	.0710	.0126	-	.0218
Guatemala	-	-	-	.0606	.0890
Total	.3309	.0710	.0126	.0606	.1108
Other Designated:					
Dominican Republic	67.9459	71.4267	69.8925	93.8537	99.4199
Haiti	8.2732	28.5023	30.0949	4.7303	.0472
Neth Antilles	-	-	-	.4171	-
Panama	23.4500	-	-	.7657	-
Total	99.6691	99.9290	99.9874	99.7669	99.4671
Total Designated:	100.0000	100.0000	100.0000	100.0000	99.7667
NON-DESIGNATED:					
Cayman Islands	-	-	-	-	.2333
Total Undesignated:	-	-	-	-	.2333
TOTAL CBI	100.0000	100.0000	100.0000	100.0000	100.0000

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Percent of calculated duties)

Commodity/Country	1982	1983	1984	1985	1986
Total					
Total	100.0000	100.0000	100.0000	100.0000	100.0000
DESIGNATED:					
Caricom Exc Guy.&Ang.:					
Antigua	1.3494	1.4948	1.2979	1.0039	.7151
Barbados	5.3194	5.8835	3.2658	5.0938	2.4128
Belize	1.0033	.9116	1.6756	1.4471	1.0676
Dominica	.0612	.0328	.0002	.0184	.0183
Grenada	.0016	.0008	.0005	.0298	.0146
Jamaica	2.5776	2.7447	4.9181	7.8658	11.0834
Montserrat	.0026	.0115	.0079	.0435	.0114
St Christopher-Nevis	.7869	.8950	1.3746	.9420	1.0331
St Lucia	.5530	.6636	.8523	1.3723	.9053
St Vincent and Grenadines	.3031	.4334	.3097	.6053	.2509
Trinidad and Tobago	5.5776	3.7842	3.0794	2.6492	2.0916
Total	17.5358	16.8559	16.7820	21.0710	19.6041
CACM Except Nicaragua:					
Costa Rica	12.7709	15.1132	15.5827	14.7698	17.1165
El Salvador	3.5051	2.3395	2.1030	2.1074	2.0336
Guatemala	.9002	1.1907	2.0881	1.7449	2.2986
Total	17.1762	18.6434	19.7738	18.6221	21.4486
Other Designated:					
Aruba	-	-	-	-	.0001
Bahamas	2.6682	4.2080	2.7918	.9278	.4819
British Virgin Islands	.0100	.0007	.0053	.0199	-
Dominican Republic	30.0591	29.5556	31.6571	32.2422	34.6702
Haiti	19.6592	18.6721	17.9081	18.9615	15.4653
Honduras	4.0925	3.3411	3.3920	3.4811	3.7960
Neth Antilles	6.2598	6.1078	4.6189	2.4754	.5907
Neth Antilles	-	-	-	-	.4091
Panama	.8260	1.5564	2.7333	2.0566	3.2737
Total	63.5747	63.4417	63.1065	60.1645	58.6871
Total Designated:	98.2867	98.9409	99.6623	99.8576	99.7398
NON-DESIGNATED:					
Anguilla	-	-	-	-	.0020
Cayman Islands	.0008	.0020	.0013	.0030	.0023
Guyana	1.3849	1.0466	.3122	.0836	.1002
Nicaragua	.3265	-	.0024	.0074	.0031
Suriname	.0010	1/	.0196	.0483	.1517

IMPORT DUTIES PAID ON CBI-EXCLUDED COMMODITIES FROM CBI COUNTRIES
U.S. imports for consumption--Continued

(Percent of calculated duties)

Commodity/Country	1982	1983	1984	1985	1986
Total					
NON-DESIGNATED:					
Turks and Caicos Islands	-	0.0105	0.0021	0.0001	0.0009
Total Undesignated:-----	1.7133	1.0591	.3377	.1424	.2602
TOTAL CBI----------------	100.0000	100.0000	100.0000	100.0000	100.0000

1/ Value or quantity less than 0.5.
SOURCE: Compiled from official statistics of the U.S. Department of Commerce.